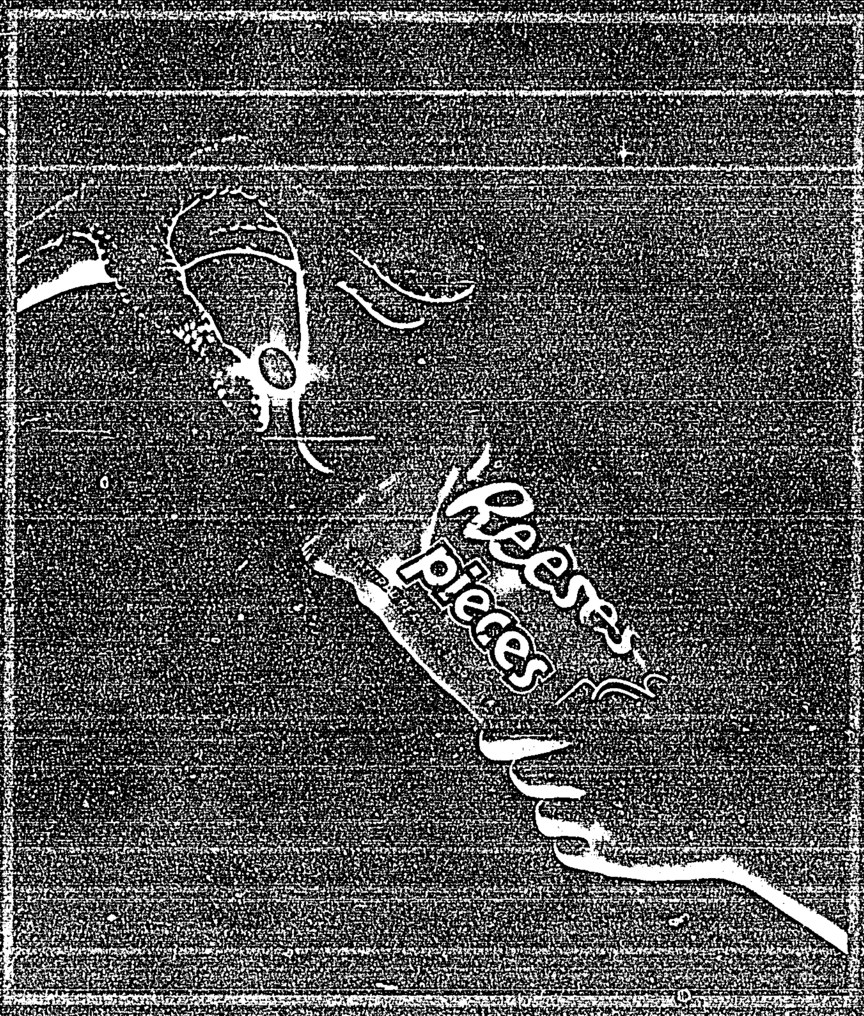
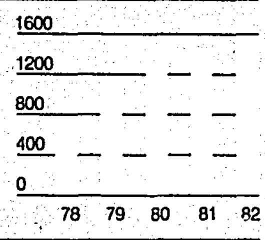
Hershey Foods Corporation

1982 ANNUAL REPORT

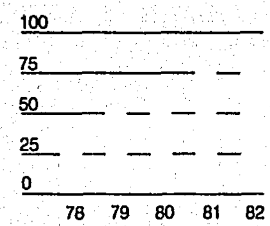


HERSHEY'S Reese's Y&S CORY San Giorgio SKINNER Friendly

NET SALES
(dollars in millions)



NET INCOME
(dollars in millions)



ABOUT THE COVER
An extra-terrestrial lent a special hand to the Hershey Chocolate Company's REESE'S PIECES brand in 1982.

E.T.™*
THE EXTRA-TERRESTRIAL

EXECUTIVE OFFICES
100 Mansion Road East
Hershey, Pa. 17033
Phone: (717) 534-4000

TRANSFER AGENT AND REGISTRAR
Manufacturers Hanover Trust Company
P.O. Box 24935
Church Street Station
New York, N.Y. 10249

INDEPENDENT PUBLIC ACCOUNTANTS
Arthur Andersen & Co.
1345 Avenue of the Americas
New York, N.Y. 10105

INVESTOR RELATIONS CONTACT
William Lehr, Jr., Secretary and Treasurer
100 Mansion Road East
Hershey, Pa. 17033
Phone: (717) 534-4245

CONTENTS

SUMMARY OF CONSOLIDATED INCOME STATEMENTS

for the periods ended December 31, 1982, and December 31, 1981

(In thousands of dollars except per share amounts)

	Fourth Quarter		Twelve Months Ended	
	1982	**1981**	**December 31, 1982**	**December 31, 1981**
Net Sales	$417,907	$384,685	$1,565,736	$1,451,151
Costs and Expenses	371,650	342,071	1,386,334	1,283,697
Income From Operations	46,257	42,614	179,402	167,454
Interest Expense—Net	2,275	1,898	7,859	12,512
Income Before Taxes	43,982	40,716	171,543	154,942
Provision for Income Taxes	20,355	19,752	77,375	74,580
Net Income	$ 23,627	$ 20,964	$ 94,168	$ 80,362
Net Income Per Common Share	$ 1.51	$ 1.42	$ 6.01	$ 5.61
Average Common Shares Outstanding	15,668,556	14,809,005	15,668,556	14,321,716

CONSOLIDATED BALANCE SHEETS

December 31

(In thousands of dollars)

ASSETS	1982	1981	LIABILITIES AND STOCKHOLDERS' EQUITY	1982	1981
Current Assets	$274,945	$287,030	Current Liabilities	$141,560	$117,255
Property and Equipment (Net)	539,914	440,184	Long-Term Debt	140,250	158,182
Excess of Cost Over Net Assets of Businesses Acquired	52,609	53,911	Deferred Income Taxes	73,766	61,699
Other	*20,603*	*25,675*	*Stockholders' Equity*	*532,495*	*469,664*
	$888,071	$806,800		$888,071	$806,800

EXECUTIVE CHANGES

Effective February 16, 1983, Michael F. Pasquale, formerly Controller and Chief Accounting Officer of the Corporation, was promoted to Vice President, Finance and Administration, Hershey Chocolate Company. On the same date, Howard W. Rush, Jr., formerly Assistant Controller, was named Controller and Chief Accounting Officer of the Corporation.

FEDERAL TAX TO BE WITHHELD FROM DIVIDENDS *(continued from page 1)*

The same penalties could apply if a Certificate of Exemption is filed when there is no entitlement to the exemption claimed.

Any questions may be addressed to Manufacturers Hanover Trust Company, Security Holder Relations, P.O. Box 24935, Church Street Station, New York, NY 10249; or to the Office of the *Corporate Secretary*, Hershey Foods Corporation, Corporate Administrative Center, 14 E. Chocolate Ave., Hershey, PA 17033.

EMERGENCY BY-LAWS

The Board of Directors of Hershey Foods Corporation adopted on February 15, 1983, a new Article to be added to the Corporation's By-laws, establishing an alternate corporate governance structure applicable in the event of an emergency situation. This step was taken to insure that the Corporation is properly prepared for future contingencies and can continue to function smoothly in the event a quorum of the Board of Directors cannot be readily convened, or the Chief Executive Officer is unable or unavailable to discharge his duties. The provisions of the Article are based upon the practices followed by other major corporations, but are tailored to Hershey's specific organizational structure and to the provisions of the Corporation's current By-laws.

SALES AND EARNINGS

(continued from page 1)

lower net interest expense due in part to capitalized interest, both of which were primarily attributable to the construction of our new confectionery manufacturing plant in Stuarts Draft, Virginia.

"Looking to 1983, we feel Hershey is well positioned for another year of growth. We anticipate, however, that our income tax rate and net interest expense will be higher in 1983 because the investment tax credits and capitalized interest benefits will be reduced by a different mix of capital expenditures and because of the changes in the tax law.

"While the outlook for the year as a whole is favorable, the excellent results posted in the first quarter of 1982 will be difficult to improve upon, but we are confident in the Company's ability to continue its growth and to achieve the results for which we are striving," Dearden concluded.

Hershey Foods Corporation

1982 PRELIMINARY REPORT

FEDERAL TAX TO BE WITHHELD FROM DIVIDENDS

The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) requires that Hershey's transfer agent, Manufacturers Hanover Trust Company, withhold 10 percent of your dividends for Federal Income Tax beginning July 1, 1983, and affecting your dividends from September 1983 and thereafter.

Because certain individuals qualify for exemption from the TEFRA withholding, a Certificate of Exemption and a letter of explanation will be sent by our transfer agent to all stockholders of record for the March and June 1983 dividends. You should carefully review this information to determine if you qualify for exemption from withholding of the tax. The qualifications for individual exemption include the following:

1. Your tax liability for the last year was $600 or less; or
2. You are 65 or older *and* your tax liability for last year was $1500 or less; or
3. You and your spouse filed a joint income tax return and your tax liability for last year was $1000 or less; or
4. You and/or your spouse are 65 or older, you filed a joint income tax return, and your tax liability for last year was $2500 or less; or
5. You were not required to file an income tax return last year.

If any of these statements apply to you, you should complete and return the exemption form. When you do, it is important to furnish your Social Secu- [illegible] not already shown on the form. One of these numbers must be shown in order for our transfer agent to exempt the account from withholding of the tax. If you have more than one registered account, a Certificate of Exemption will be required for each account; otherwise, 10 percent of all dividend payments will be automatically withheld beginning July 1, 1983 from any accounts not exempted.

If you are not now eligible for one of these exemptions but will be at some time during the next year, please retain the form sent to you for use at the time you do become eligible.

Only one exemption form is needed per account and the exemption claimed need not be renewed; however, willful failure to revoke it if you are no longer entitled to the exemption could subject you to both civil and criminal penalties.

(continued on page 2)

INVESTOR INFORMATION

Closing Market Price—
Common Stock: $56⅜
(at December 31, 1982)

NYSE—Composite Quotations:

Price Range:	High	Low
First Quarter 1982	38⅜	32⅜
Second Quarter 1982	43⅛	37⅝
Third Quarter 1982	49	39⅜
Fourth Quarter 1982	59½	47¼

NYSE—Composite Trading Volume:

First Quarter 1982	814,000 Shares
Second Quarter 1982	874,000 Shares
Third Quarter 1982	984,000 Shares
Fourth Quarter 1982	938,000 Shares

Latest Quarterly Dividend Payment:
Dec. 15, 1982 .... $.525 Per Share

Next Regular Dividend:

Record Date:
Feb. 25, 1983

Payment Date:
March 15, 1983 .. $.525 Per Share

Current Annual Dividend Rate:
$2.10 Per Share

DIVIDEND

The Board of Directors of Hershey Foods Corporation on February 15, 1983, declared a regular quarterly dividend of $.525 per share on the common stock. The dividend is payable on March 15, 1983, to stockholders of record February 25, 1983. It is the 213th consecutive regular dividend.

EXECUTIVE OFFICES

100 Mansion Road East
Hershey, PA 17033

TRANSFER AGENT

Manufacturers Hanover Trust Co.
P. O. Box 24935
Church Street Station
New York, NY 10249

SALES AND EARNINGS

Hershey Foods Corporation on February 15, 1983, announced record consolidated sales and earnings for the year 1982. Net sales for the year were $1,565,736,000 compared with $1,451,151,000 in 1981. Net income for the year was $94,168,000 compared with $80,362,000 in 1981. Earnings per share increased to $6.01 per common share in 1982 compared with $5.61 per common share in 1981.

In 1982, the average number of shares outstanding for the year was 15,668,556, reflecting the November 1981 stock offering in which 1,500,000 shares of the Company's common stock were sold to the public. This compares with 14,321,716 average shares outstanding in 1981.

Net sales for the fourth quarter were $417,907,000 compared with $384,685,000 for the fourth quarter of 1981. Net income for the quarter was $23,627,000, or $1.51 per common share, compared with $20,964,000, or $1.42 per common share, for the same period in 1981.

"We are pleased with our fourth quarter results, especially in view of the circumstances surrounding the 1982 Halloween season," said William E. C. Dearden, Vice Chairman and Chief Executive Officer. "While alleged tampering with confectionery products led to a general slowdown of industry shipments in the immediate post-Halloween period, product movement was back to normal by December. Hershey Chocolate Company's sales were affected somewhat by this situation, but the Company did post a reasonable sales gain for the period. Friendly Ice Cream Corporation had a particularly strong fourth quarter due to excellent customer count which was the result of very favorable weather conditions.

"In 1982, the Company's overall performance was outstanding despite the unsettled economy and the vigorous competitive climate in all of our businesses," Dearden continued. "Sales increased at a reasonable rate in view of the prevailing economic conditions. In general, our businesses benefited from lower commodity costs which were partially offset by an increase in marketing expenditures.

"The seventeen percent increase in net income for 1982 was a significant achievement. Net income benefited from a lower income tax rate associated with investment tax credits as well as

(continued on page 2)

ershey Foods Corporation is a major producer of chocolate and confectionery products; operates a chain of restaurants; is a major producer of pasta products; and operates an office coffee service plan.

Hershey has chocolate and confectionery producing facilities in Hershey, Pa.; Oakdale, Calif.; Stuarts Draft, Va.; and Smiths Falls, Ontario, Canada. In addition, the chocolate and confectionery segment includes the H. B. Reese Candy Company with its production facility in Hershey, Pa., and Y & S Candies, a manufacturer of licorice-type candies with plants in Lancaster, Pa.; Moline, Ill.; Farmington, N.M.; and Montreal, Quebec, Canada.

Friendly Ice Cream Corporation, headquartered in Wilbraham, Mass., operates approximately 640 restaurants located primarily in the Northeast and Midwest, which serve high quality, moderately-priced menu items and specialize in ice cream, sandwiches, and informal meals. San Giorgio-Skinner Company has pasta manufacturing facilities in Lebanon, Pa.; Omaha, Nebr.; and Louisville, Ky. Petybon Industrias Alimenticias Ltda., a 100 percent-owned Brazilian subsidiary, also produces pasta as well as other food products. Cory Food Services, Inc. is a Chicago-based provider of one of the nation's largest office coffee service plans.

The Corporation's principal executive offices are in Hershey, Pa. The Corporation had 13,600 full-time employees and 16,033 stockholders on December 31, 1982.

(in thousands of dollars except shares and per share amounts)

	1982	1981	% Change
Net sales	$ 1,565,736	$ 1,451,151	+ 8
Net income	94,168	80,362	+17
Net income per common share	6.01	5.61	+ 7
Cash dividends per common share	2.00	1.75	+14
Cash dividends paid	31,337	25,504	+23
Capital additions	116,736	91,673	+27
Stockholders' equity	532,495	469,664	+13
Price per common share at year-end	56.38	36.00	+57
Equity per common share at year-end	33.99	29.97	+13
Outstanding common shares at year-end	15,668,556	15,668,556	—
Weighted average shares outstanding	15,668,556	14,321,716	+ 9

e are pleased to report that 1982 has been another record year for Hershey Foods Corporation. The Company achieved record sales, operating income, net income and earnings per share despite the difficult business environment of 1982. The 17 percent increase in net income was a significant accomplishment, and the earnings per share increase of seven percent is particularly gratifying in view of the additional 1,500,000 shares outstanding during 1982.

Harold S. Mohler *(top left)*
William E. C. Dearden *(top right)*
Richard A. Zimmerman *(bottom right)*

As we entered 1982 we knew that numerous challenges, including turbulent economic conditions and ever sharpening competition, would arise, and our expectations were well-founded. Hershey people, however, were prepared to turn these challenges into opportunities, and the Company made considerable progress during the year. All Hershey employees worked harder and smarter in 1982, and we salute their dedication and loyalty.

DIVISIONAL PERFORMANCE

Hershey Chocolate Company had an excellent year with solid unit volume gains attributable to both new and traditional products. While extraterrestrial help was not part of our original plan, the Company was certainly prepared to accept a helping hand from that loveable alien, E.T. The Hershey Chocolate Company's right to promote REESE'S PIECES as E.T.'s favorite candy contributed significantly to increased sales of that product, and perhaps even more importantly, garnered for the Company a wealth of national publicity which helped to further strengthen our strong franchises with the consumer.

REESE'S PIECES and WHATCHAMACALLIT candies are the two principal products now manufactured in the Company's new confectionery production facility in Stuarts Draft, Virginia. The plant began production in October 1982, and was completed on time and within budget, which is a real tribute to all who were a part of its development. It will greatly enhance our ability to meet the demand for REESE'S PIECES and WHATCHAMACALLIT candies as well as continue an aggressive new products program.

Friendly Ice Cream Corporation also had an outstanding year with real growth achieved despite problems with poor weather during the first half of the year and the intensely competitive activity in the restaurant business throughout 1982. Friendly has a strong sense of direction and is making excellent strides in implementing its plans to strengthen and expand its business.

San Giorgio-Skinner Company achieved record levels of sales and earnings and performed solidly in a year also marked by intensely competitive activity. For Cory Food Services, Inc., 1982 was a year of transition as the new management team began to implement its program.

COMPETITION

All of our businesses were subjected to intensified competition during 1982. Our response to this challenge was predicated on the fundamental principle upon which this corporation was built—to provide the best consumer value with top quality in every product we manufacture and every service we provide.

This competitive atmosphere was most evident in the U.S. chocolate and confectionery industry where the term "chocolate wars" was coined by the media as various companies jockeyed to enhance their market positions. Within the context of this situation, Hershey Chocolate Company instituted a new, increased weight and price structure for its standard bar line. The net result was to provide the consumer with better value and the Company with a reasonable return.

MARKETING

Another aspect of our strategy to build for the future is the Company's investment in marketing activities. While the REESE'S PIECES candy promotion received considerable media attention in 1982, it was just one of numerous productive marketing programs undertaken by Hershey Chocolate Company, Hershey Canada, Friendly and San Giorgio-Skinner.

COMMODITIES

During 1982, the Company's commodity costs were lower than those incurred during 1981. It should be noted, however, that while world sugar prices were substantially lower in 1982, the imposition of import quotas and duties to protect the price support of sugar established by the Agri-

culture and Food Act of 1981 caused U.S. domestic sugar prices to be significantly higher than world market prices.

CAPITAL ADDITIONS

The Company continued to invest significant amounts in capital projects to support future growth. In addition to the major expenditure by Hershey Chocolate Company for the Stuarts Draft confectionery facility, Friendly added 24 new restaurants, many of which represent a new version of the free-standing building which promises a greater return on investment than the previous model. Funds were also invested in other production and processing equipment to modernize our existing facilities. In 1983, we expect capital additions to be somewhat less than the approximately $117 million in 1982.

DIVIDEND INCREASE

For the eighth consecutive year the Company's annual dividend rate was increased reflecting our confidence in the future. The 10.5 percent increase from $1.90 to $2.10 on an annual basis reflects an awareness of the needs of our stockholders for an adequate return on their investment, as well as the cash requirements of our business. Going forward we will continue to give appropriate consideration to both requirements. We are pleased to note that our dividend growth rate in 1982 outstripped the increase in the average Consumer Price Index during the year.

Also gratifying was the attention given the Company by the investment community during 1982, when the value of our stock increased more than 50 percent, reflecting the market's perception of the Company's capability for continued profitable growth.

BOARD CHANGES

During the year we made two excellent additions to our Board of Directors. Robert J. Lanigan, President and Chief Operating Officer of Owens-Illinois, Inc., was elected on October 5, 1982, and H. Robert Sharbaugh, former Chairman and Chief Executive Officer of Sun Company, Inc., was elected on November 2, 1982. We welcome the wisdom and experience they bring to the enterprise.

Louis C. Smith, Vice President of the Corporation and a Director since 1973, will not stand for reelection to the Board in 1983. He joined Hershey in 1948 as a Mechanical Engineer and will have spent more than 35 years in dedicated service to the Company upon his retirement in 1984. He directed the corporate engineering function for two decades and more recently his capabilities have been focused on two areas having significant economic impact on the Company—productivity and energy. We are most appreciative of Lou's excellent contributions to the Board during his tenure as a Director.

EXECUTIVE CHANGE

Effective February 16, 1983, Michael F. Pasquale, formerly Controller and Chief Accounting Officer of the Corporation, was promoted to Vice President, Finance and Administration, Hershey Chocolate Company. On the same date, Howard W. Rush, Jr., formerly Assistant Controller, was promoted to Controller and Chief Accounting Officer of the Corporation.

ECONOMY

While the economy was under significant stress during 1982, we feel the Administration is pursuing the proper course and will be able to reverse several decades of governmental economic shortsightedness, provided the President's policies receive needed congressional support. This must be a team effort with all constituencies working together effectively to get America moving again. Nothing short of this is acceptable, and we all must make our thoughts known to those responsible for achieving these results.

As stated last year, however, we believe it will take time to achieve economic stability. Until that time, the country will remain in a period of economic uncertainty which will continue to present a stern test for our management and our businesses.

Whether or not all the pieces of the current economic puzzle are put into place during 1983, Hershey is positioned for a year of continuing growth. It should be noted, however, that certain factors basic to the Company's results in 1982 will be altered in 1983. We anticipate our income tax rate and net interest expense will be higher in 1983 because investment tax credits and capitalized interest benefits will be reduced by a different mix of capital expenditures and changes in the tax law. While the outlook for the year as a whole is favorable, the excellent results posted in the first quarter of 1982 will be difficult to improve upon.

All of us recognize that a strong, growing company provides the opportunity for continuing employment, personal growth, and development of their talent for employees at all levels. We are most appreciative of our employees' support in achieving the records set in 1982, and are counting on their continued support as together we confront the challenges of 1983.

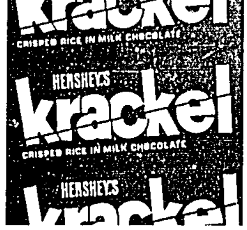
H. S. Mohler

Chairman of the Board

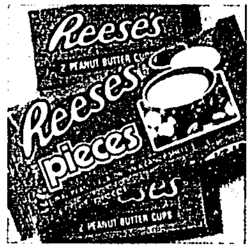
Vice Chairman of the Board
and Chief Executive Officer

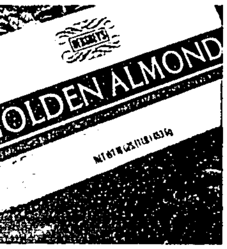
President and
Chief Operating Officer

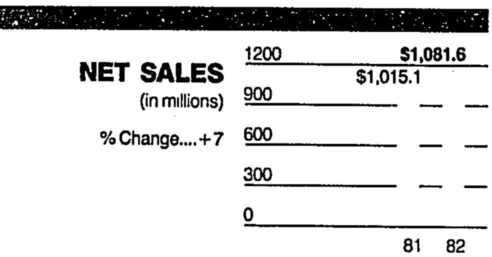
March 10, 1983


HERSHEY'S
krackel
CRISPED RICE IN MILK CHOCOLATE


HERSHEY'S
mr. Goodbar
PEANUTS IN MILK CHOCOLATE
HERSHEY'S
SPECIAL


Reese's
Reese's
pieces


OLDEN ALMOND


NET SALES
(in millions)
% Change....+7
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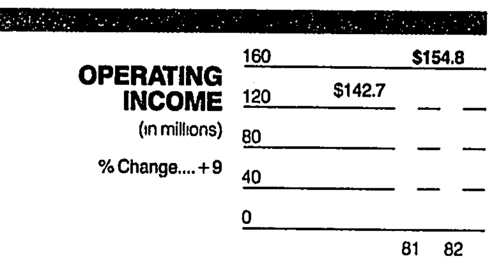
$1,015.1
$1,081.6
81
82


OPERATING INCOME
(in millions)
% Change....+9
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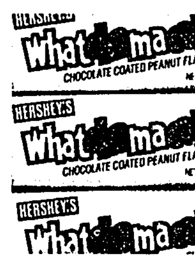
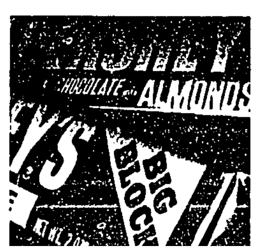
120
80
40
0
$142.7
$154.8
81
82


HERSHEY'S
CHOCOLATE COATED PEANUT FLAV
HERSHEY'S


KitKat
Twizzlers
Rolo


ALMONDS
BIG BLOCK

HERSHEY CHOCOLATE COMPANY

he Hershey Chocolate Company achieved record levels of sales and operating income in 1982. Unit volume increases accounted for more than one-third of the dollar sales growth over 1981. Operating income increased primarily due to the higher sales level. Operating margins were essentially maintained despite a reduction in per pound selling prices resulting from the price and weight changes in the standard bar line and higher selling and marketing expenses. While 1982 results were influenced by numerous factors and programs, four key areas should be addressed: ingredient costs and selling prices, including the change to the 30¢ standard bar line; Halloween; new products; and the opening of the Stuarts Draft manufacturing facility.

Costs of all major raw ingredients, particularly sugar and cocoa, were lower in 1982 than in the prior year. As a result of these lower ingredient costs, the Company was able to increase the consumer value of its standard bar and BIG BLOCK bar lines, reduce prices on selected grocery items, and meet the challenge of increased competitive promotional activity while maintaining its operating margins.

In late 1981, certain of Hershey's competitors increased the wholesale prices of their candy bars, resulting in a five-cent increase in retail price. Hershey maintained its pricing structure because the Company did not believe the costs of doing business justified an increase. This message was conveyed to the trade and to the consumer through a broad advertising program.

In order to continue the fair value of the lower priced HERSHEY bars, many retailers instituted a two-tier pricing system for candy bars—25¢ for Hershey's products and 30¢ for others. This proved to be very difficult for many retailers to implement and control at the check-out counters, and Hershey decided to increase the price and the weight of its standard bar line products during the second quarter of 1982.

Taking the Company's three major items for example, HERSHEY'S Milk Chocolate Bars and HERSHEY'S Almond Bars were increased in weight by 38 percent and REESE'S Peanut Butter Cups were increased by 33 percent, while the wholesale price was increased only 20 percent, resulting in a substantial improvement in consumer value. By the beginning of the fall season, the wholesale prices were fully reflected at retail, where prices increased from 25¢ to 30¢ in most outlets, and consumer and trade acceptance had been achieved.

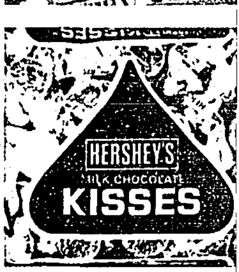
Halloween is an important season for the sale of confectionery products. As a result of aggressive selling and marketing programs, Hershey products were extremely well received by retailers and the Company's shipments of Halloween candy into stores were at record levels. Unfortunately, widespread media reporting of alleged tampering with confectionery products resulted in consumer apprehension and lower levels of "Trick or Treating" than in past years. As a consequence, both trade and consumer inventories of all confectionery products were higher than usual after Halloween, resulting in a slowdown in industry shipments from manufacturers in November. By the end of the year, however, trade inventory and order rates had returned to normal levels. Concerning the future, the Company is working with industry associations to assure consumers that Halloween traditions can be enjoyed with confidence.

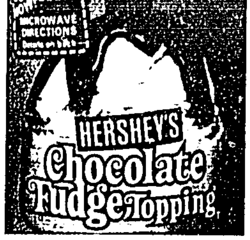
New products enjoyed a particularly successful year. For REESE'S PIECES candy, 1982 marked the first full year of national distribution. With E.T.'s support, it became one of America's most publicized candy products, and around-the-clock operations were necessary to meet the demand in the last half of the year. The Company has negotiated a new agreement with Universal Studios to secure the rights to continue promotion of REESE'S PIECES as E.T.'s favorite candy.

NEW TRAIL bars are granola snack bars which the Company introduced with extraordinary success in initial markets during 1982. NEW TRAIL bars feature a unique granola bar formulation and deliver a tastier, moister bar in three flavors: Honey Graham, Cinnamon and Peanut Butter. Production capacity limitations experienced during 1982 will be overcome in 1983 making significant expansion of this product possible.

Excellent test market results were achieved in 1982 by SKOR, a crisp, butter toffee bar enrobed with milk chocolate which was imported from the Company's Scandinavian affiliate, AB Marabou. In early 1983, the Company began to manufacture this product in the United States under license from AB Marabou. It will be placed in national distribution as production capability permits.

AFTER EIGHT, a chocolate-covered thin mint which has been imported from Rowntree Mackintosh, has been available in the Northeast for the

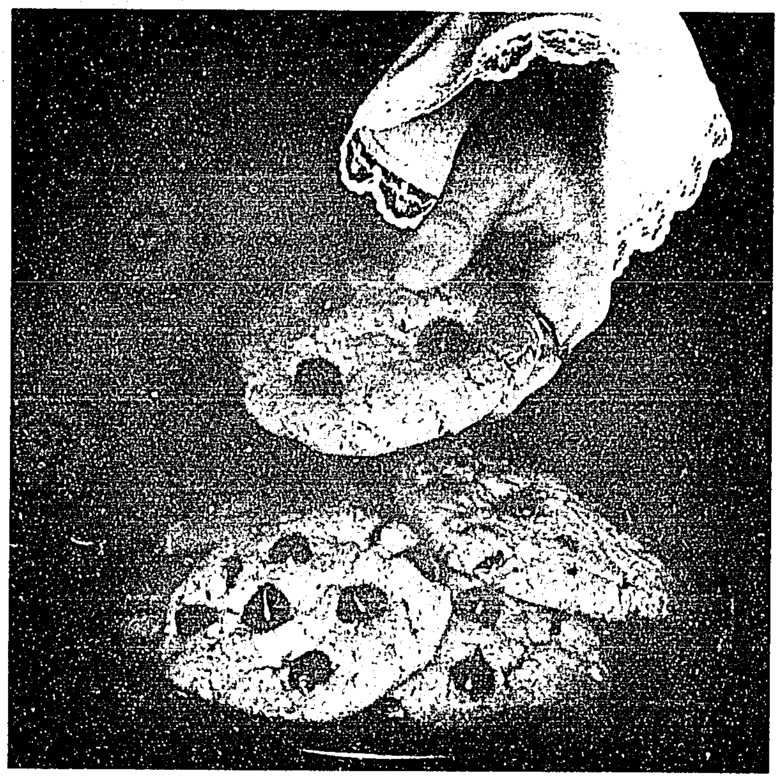



MICROWAVE DIRECTIONS
HERSHEY'S
Chocolate
Fudge Topping

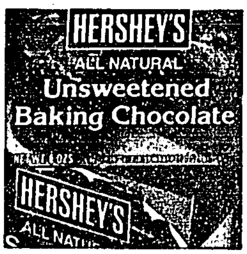

REAL CHOCOLATE
milk chocolate chips
CHOCOLATE tastes better in cookies!
HERSHEY'S
semi-sweet chips
REAL CHOCOLATE


Great for Baking
HERSHEY'S
COCOA


HERSHEY'S
HOT
COCOA




HERSHEY'S
nstant
EAL CHOCOLATE FLAVOR


HERSHEY'S
ALL NATURAL
Unsweetened
Baking Chocolate
HERSHEY'S
ALL NATU


mini
chip
Reeses
peanut butte
CHIP


GENUINE CHOCOLATE FLAVOR
HERSHEY'S
SYRUP

past five years. It was introduced nationally during the fall of 1982 with gratifying trade and consumer response.

In addition to these key areas, several other products and programs deserve mention. National advertising was utilized for GOLDEN ALMOND for the first time during the 1982 Christmas season with excellent results. BIG BLOCK, a line of thicker chocolate bars introduced nationally in late 1980, continued to grow in 1982 and maintained excellent sales and market share levels despite the entry of a number of competitive products.

Reflecting new product introductions, the implementation of test market programs on other products, and the intensified competition in all product categories, investments in advertising and promotional activities reached record levels. An increasing percentage of these investments has gone to consumer advertising which builds brand awareness, increases immediate consumer consumption and, longer term, strengthens the Company's franchise with the consumer.

Construction of a major confectionery plant in Stuarts Draft, Virginia, was completed in October 1982, on schedule and within budget. Commercial production of REESE'S PIECES actually began several weeks ahead of plan, assisting greatly in meeting the heavy demand for this new product. A key to the smooth start-up was the high quality of the local workforce.

The Company's capital expenditures in 1983 are expected to remain at a relatively high level to support the growth anticipated for this important division. The major capital expenditure will be for an eastern distribution center which is under construction approximately 20 miles west of Hershey, Pennsylvania.

The facility will be used to combine products made in the various eastern plants for distribution to the Company's network of warehouses or directly to customers. The building is located on a sixty-two acre site and will have a total area of ten acres under roof. The cost of land, building and associated equipment is expected to be approximately $16 million. Most other major capital projects planned are for production equipment to support new products and line extensions.

Over the last several years, production efficiencies resulting from the capital expenditure program have made a significant contribution to the Company's operating margin improvements. Productivity improvement through plant modernization, as well as other programs, continues to be given high priority by the Company.

HERSHEY CANADA INC.

Hershey Canada Inc. experienced another year of progress in 1982. The Canadian company achieved increased sales and operating income, real growth and market share gains during the year. This performance was accomplished despite the difficulties associated with operating in markets which were either in decline or static as a result of the depressed economic environment in Canada.

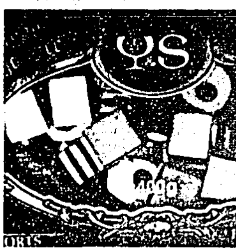
Sales growth resulted from volume increases on existing brands as well as continued success of the Company's new products program. Major new products efforts during 1982 included the national introduction of five BIG BLOCK chocolate bar items and STRAWBERRY COW, a strawberry-flavored liquid milk-modifier. Of the five new BIG BLOCK brand items, two are unique to the Canadian market—"Pecan" and "Raisin & Almond." Additionally, line extensions of REESE'S PIECES, SPECIAL CRISP (the Canadian version of WHATCHAMACALLIT) and NIBS candies were introduced in 1982.

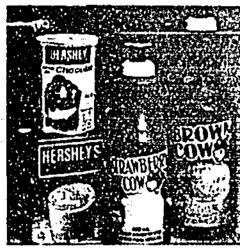
The success of Hershey Canada Inc.'s new product program is evident in the fact that 23 percent of 1982 consumer sales were contributed by new products introduced since 1980. A further reason for the Company's strong sales performance in 1982 was the incremental REESE'S PIECES volume generated by the brand's association with E.T.

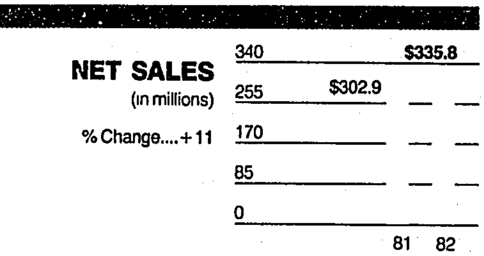
Substantially all of Hershey Canada's 1982 sales gain represented unit volume growth as only a few modest price increases were implemented. This real sales growth was translated into market share increases in most segments of the business. These share gains were most notable for chocolate bars and for BROWN COW, which has achieved share leadership of the important chocolate liquid milk-modifier category. Hershey Canada Inc. has now achieved national market share leadership in three product categories—licorice, sundae toppings and liquid milk-modifiers.

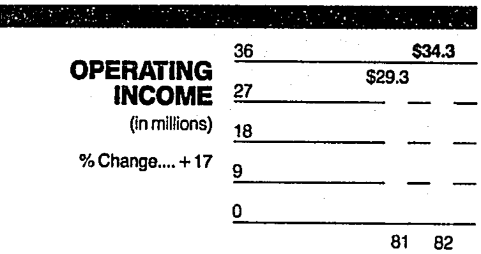
Prices of major commodities were lower in 1982 than in 1981, and these lower costs helped to offset the higher costs of packaging, labor and overhead. The cost relief experienced in manufacturing operations in 1982 coupled with improved productivity and real sales growth resulted in Hershey Canada Inc. generating increased operating income in 1982.

Major capital investment activity in 1982 focused on increasing the capacity and efficiency of the panning operation at the Smiths Falls, Ontario plant. Panning is a process used in the manufacture of REESE'S PIECES, and the successful completion of this project in June was timely because it permitted the Company to capitalize on the demand for REESE'S PIECES generated by the film "E.T." during the last half of 1982.






NET SALES
(in millions)
% Change....+11
340
255
170
85
0
$335.8
$302.9
81
82


OPERATING INCOME
(in millions)
% Change....+17
36
27
18
9
0
$34.3
$29.3
81
82

FRIENDLY ICE CREAM CORPORATION

ales and operating income for Friendly Ice Cream Corporation achieved record levels in 1982 despite intensified competitive activities by other restaurant operators vying for a larger share of a market inhibited by a weakened economy.

Sales improvements over 1981 were attributable to heavy promotional activity, the opening of 24 new restaurants, continuation of the program to modify existing restaurants, sales of new products, favorable weather during the last half of the year and selected menu price increases. Poor weather during the first half of the year and the closing of nine restaurants during the year were negative influences on sales growth. Of the 11 percent increase in sales, approximately half was attributable to real growth.

The lessening of inflationary pressures, particularly in the costs of food and labor, resulted in only modest menu price increases in 1982, in sharp contrast to the upward price movements of 1981. Cost containment measures coupled with real sales gains and productivity improvements contributed to improved operating margins in 1982 compared with the previous year.

During 1982, thirteen free-standing Family Restaurants and nine restaurants in shopping malls were opened. Also, two restaurant locations previously operated by other companies were economically acquired and converted to Friendly units. Friendly hopes to take advantage of future opportunities to acquire such sites. At December 31, 1982, there were 641 FRIENDLY Restaurants in operation.

The thirteen new free-standing Family Restaurants utilize a new building design which has a sales capacity comparable to the original Family Restaurants, but costs less to construct and improves restaurant labor productivity. The on-site construction cycle of these units was substantially reduced by using prefabricated wall and roof systems. Additional cost reductions have been designed into units opening since November 1982.

Significant capital investment for future growth continued to be made by Friendly through the restaurant modification program. During 1982, Friendly completed the first phase of its program of upgrading all Traditional units to enhance their uniformity, efficiency of operation and customer appeal. Most modifications include varying levels of improvements to restaurant decor. In addition, the program's second phase, already implemented at many locations, includes further unification of restaurant decor, adoption of a more personalized service system, and an increase in the proportion of booth seating to counter seating. The Company intends to continue modifying and upgrading existing restaurants as conditions warrant.

In February 1982, a standardized menu was introduced chainwide to eliminate most of the differences in product offerings which had existed among Traditional Ice Cream and Sandwich Shops, Modified Restaurants and the newer Family Restaurants. In addition, prices for the same products became uniform for restaurants in most places.

With the increased uniformity brought about by the modification program and menu standardization, a program was tested in the Midwest to realign Friendly's field supervision totally along geographic lines. Previously supervision was organized around each different restaurant concept with the newer Family Restaurant units in a separate division with rather substantial distances between units. The integration of all Family Restaurants with the other divisions will provide increased time to the district managers


Friendly
restaurants


Breakfast
Friendly
restaurants

for on-site supervision. This realignment will be expanded to the whole chain in 1983.

In line with the food service industry in general, Friendly's advertising and promotional activities were the most aggressive ever, both in terms of the number of programs and total cost. Consumer advertising and couponing were effective in supporting sales of particular product lines, especially ice cream specialties.

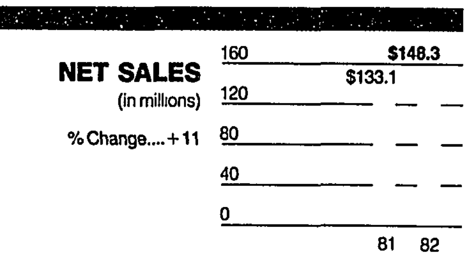
Ice cream pies, test marketed in the fall of 1981, were introduced successfully on a chainwide basis during April and May 1982. In addition to a standard line of flavors which includes Cocoa Mocha, Chocolate Mint, and Chocolate Chip Fudge, Friendly also offers seasonal flavors such as Apple and Pumpkin for the Thanksgiving-Christmas holidays. The new WATTAMELON, an extruded sherbet roll, was available chainwide from July through September, and ice cream cakes continued to be sold in test markets. The results of these tests encourage the Company to continue offering these ice cream specialty products.

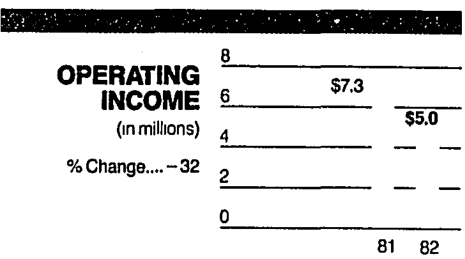
During 1982, the "Traditions of Excellence Program," a new version of a similar program utilized in 1981, was implemented. This program is designed to motivate division managers, district managers, restaurant managers and customer service supervisors through a wide array of incentive awards. It continues to emphasize and underscore the delivery of outstanding customer service in the broadest sense.

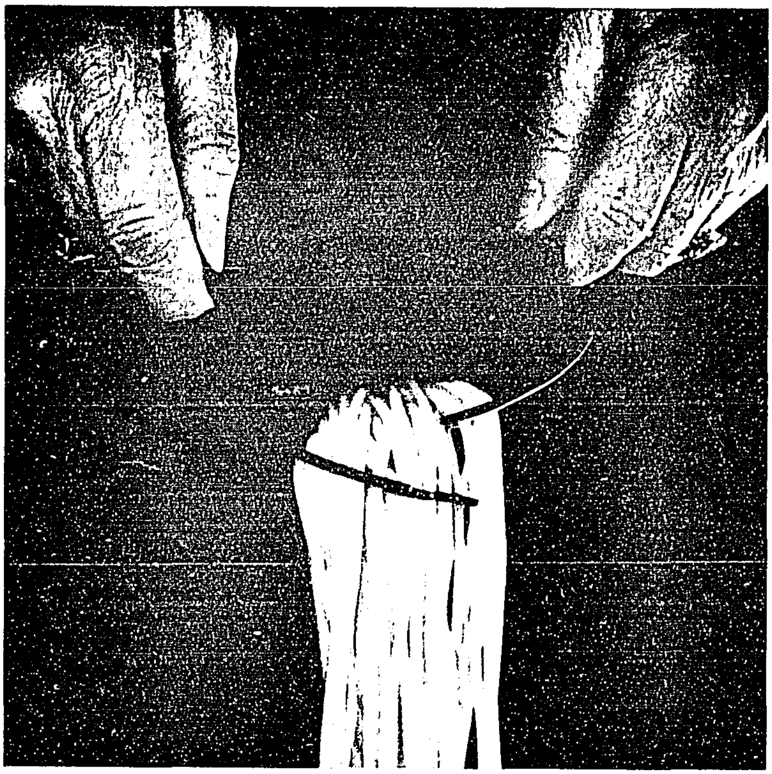
A communications program to improve productivity, quality assurance and employee relations utilizing employee groups called "Pride Teams," was expanded to a total of 14 departments at Friendly's manufacturing facilities. The use of audio-visual equipment as a restaurant training device covering customer relations, human relations for Customer Service Supervisors, and product preparation was expanded chainwide during the year.

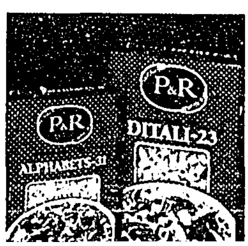

San Giorgio
CAPELLINI
ROTINI


SKINNER
ENRICHED
SHELL
MACARONI


NET SALES
(in millions)
% Change....+11
160
120
80
40
0
$148.3
$133.1
81
82


OPERATING INCOME
(in millions)
% Change....−32
8
6
4
2
0
$7.3
$5.0
81
82




P&R
DITALI-23

SAN GIORGIO-SKINNER COMPANY

an Giorgio-Skinner Company achieved record sales and operating income in 1982. This is an especially noteworthy performance in view of the intense price competition in a number of key markets in the Northeast. Generally lower commodity costs made more promotional dollars available which resulted in greatly increased levels of competitive activity among domestic firms. There was also an influx of low priced imports which further disrupted the marketplace.

Pasta is made from semolina flour milled from durum wheat, a specialized hard wheat grown almost exclusively in North Dakota. The 1981 durum crop of 180 million bushels was the largest in history. Responding to the size and the excellent quality of the crop, semolina costs decreased during 1982. This decrease more than offset lower selling prices and increased marketing expenditures, resulting in an operating income margin improvement for San Giorgio-Skinner. The 1982 durum crop of 150 million bushels was larger than expected and again of high quality.

While the Company's SAN GIORGIO brand was impacted somewhat by the influx of imports, the SKINNER brand had particularly strong results in its core Southwestern markets. A major packaging change from flexible polyethylene bags to cartons for SKINNER in the Southeast contributed to growth for the brand in that marketing area.

The P&R brand recaptured its leadership position in its market area in upstate New York. This was the result of a more aggressive sales effort complemented by a complete redesign of the package graphics for more shelf impact. Three new items were introduced to the P&R line in 1982: large shells, cut fusilli and egg fettuccini.

A major new product, LIGHT 'N FLUFFY elbow macaroni, was launched into test market in the spring. This addition is expected to be an effective complement to the Company's highly successful LIGHT 'N FLUFFY noodle line, which offers a light, quick-cooking, fluffier pasta product.

Declining retail prices have fueled an unusual and unprecedented growth in consumer pasta sales. The Company's brands were well positioned to take advantage of this growth with volume gains accounting for all of San Giorgio-Skinner's sales gain. With adequate durum supplies, continued growth is expected for the American pasta industry as a whole and the Company's brands in particular.

To prepare for that growth, additional capacity was obtained in 1982 with the installation of a 4,000 pound-per-hour, microwave, short cut noodle line at the Lebanon, Pennsylvania plant location. Other productivity improvement projects were undertaken which yielded important savings at each of the Company's pasta manufacturing locations.

PETYBON INDUSTRIAS ALIMENTICIAS LTDA.

In 1982, Hershey significantly expanded the scope of its international operations by purchasing at a cost of $13 million the remaining 60 percent interest of Petybon Industrias Alimenticias Ltda., a joint venture corporation in Brazil. Accordingly, the sales and earnings of Petybon since the acquisition are now consolidated and included in this segment. Previously it was accounted for under the equity method whereby

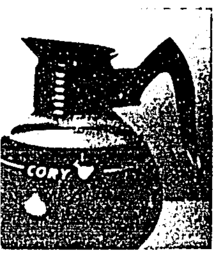
only Hershey's 40 percent share of the earnings were recorded.

Petybon manufactures a full line of pasta products in a modern plant located in Sao Jose dos Campos, which is approximately 50 miles from Sao Paulo. Biscuit and margarine products are manufactured in two separate facilities located in the city of Sao Paulo.

Despite severe economic conditions in Brazil, Petybon achieved operating income in local currency in 1982. A U.S. dollar operating loss was recorded, however, principally because of foreign exchange translation adjustments arising from the strength of the U.S. dollar relative to the Brazilian cruzeiro.

CORY FOOD SERVICES, INC.

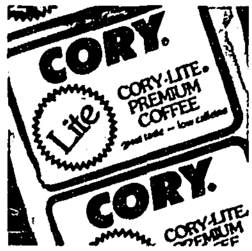
At Cory Food Services, Inc., 1982 represented a year of change and development. Under the direction of Cory's new management team, key business issues were addressed throughout the year with the purpose of laying a firm, new sales foundation for the basic business of coffee service. This new foundation now affords Cory the opportunity to build and grow.



Of the Company's various businesses, Cory was the most heavily impacted by the recession. Sales declined slightly in 1982 compared with the prior year, primarily because of reduced selling prices on coffee kits. Although severe economic pressures affected Cory's overall customer base, coffee volume declined only slightly, and allied products and equipment leasing enjoyed significant gains over the prior year's results.

During the last few years, competitive pressures on pricing have contracted Cory's operating margins. Green coffee costs increased during 1982, but the effect of the 1982 economy on Cory's customer base made it difficult to raise prices in order to maintain operating margins with the result that only a modest operating income was realized.

The foundation issues which Cory addressed in 1982 were sales and management training from which to build a solid field sales force; sales and management compensation to provide clear future direction through incentives; and overall restructuring of product pricing. As part of this process, key management changes were initiated, and product quality and competitive differences were emphasized with Cory's customers.



HERSHEY INTERNATIONAL LTD.

ershey's export operations remained profitable in 1982, despite a worldwide economic malaise affecting market development in many parts of the globe. In the aggregate, joint venture affiliate operations were profitable in local currencies in 1982; however, these results were substantially reduced by foreign exchange translation adjustments due to the strengthening of the U.S. dollar relative to the local currencies.

In 1982, the Company's export sales of semi-processed and finished products expanded appreciably in comparison to 1981, with Far Eastern and Middle Eastern shipments contributing to this increase. Although Japan still is a major factor in the Company's overall export sales base, a number of other foreign markets are now adding importantly to total sales and earnings. This progress is especially noteworthy in view of the extremely high value of the U.S. dollar prevailing in 1982 which made Hershey's products less price competitive in comparison to European and Japanese products.

The sales and earnings of the Company's Swedish affiliate, AB Marabou, increased significantly above 1981 results. This favorable growth trend was the result of increased export sales, especially to Germany, and market share gains in the Swedish chocolate and confectionery, snack, and biscuit sectors.

In the Philippines, Hershey's affiliate company, Philippine Cocoa Corporation, increased sales and profits in comparison to the previous year. In conjunction with the technical assistance program provided by Hershey International Ltd., this affiliate company completed the installation of a new cocoa processing plant and the first phase of an experimental farm for the cultivation of cocoa beans.

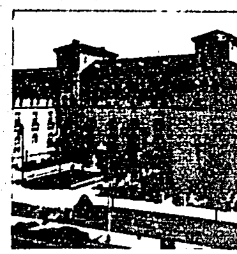
Chadler Industrial da Bahia S.A., the Company's Brazilian affiliate which processes cocoa beans, was profitable in local currency in 1982, despite depressed prices for cocoa and derivative products in world markets. Foreign exchange translation adjustments, however, resulted in a U.S. dollar loss for this affiliate.

In Mexico, Nacional de Dulces' new plant operations in Guadalajara have now moved beyond the start-up phase, and chocolate production currently is above the levels reached at the Mexico City plant. However, in 1982, start-up conditions and higher financing costs continued to burden both sales and profits. This situation was complicated further during the year by a severe deterioration in the Mexican economy and the maxi-devaluations of the Mexican peso. This decline in the health of the Mexican economy led to rapid increases in inflation and interest rates which have impacted negatively this affiliate's financial performance.

The results of Petybon's operations are discussed as part of the Other Food Products and Services Segment on page 13.

CORPORATE ADMINISTRATIVE CENTER

During the spring of 1982, a new Corporate Administrative Center was opened in the building formerly used as the Hershey Community Center. Purchased by the Corporation in 1979 to accommodate a growing corporate staff while freeing space for Hershey Chocolate Company's expanding administrative staff, the Corporate Administrative Center is presently being used by approximately 225 employees. Upon completion of later phases of the project, the facility will accommodate up to 400 employees. A physical fitness center, open to all employees of the Corporation, is also located in the building.



HERSHEY'S NATIONAL TRACK & FIELD YOUTH PROGRAM

In early 1983, this program, which is underwritten by the Corporation and has involved several million youngsters, was moved from Charleston, West Virginia, to Hershey. Its National Finals, in which some 500 participants representing every state in the nation compete, are also being moved and will be held in Hershey for the first time on August 13, 1983.

The program is conducted in cooperation with the National Recreation and Park Association, the National Track and Field Hall of Fame, and the President's Council on Physical Fitness and Sports.

In announcing the move, William E. C. Dearden, Vice Chairman and Chief Executive Officer, said the Corporation enthusiastically welcomes this program to Hershey because it is a further extension of the philosophy of Milton S. Hershey, whose concern for young people led to the founding of Milton Hershey School.

Dr. Donald P. Cohen, program founder, and William E. C. Dearden

hat's in a name? Philosophers and scholars have debated the question for centuries. But to officials at Hershey Foods Corporation the answer is quite clear—a great deal! The brand name of a product must do several things—identify the source, capture the consumers' attention and elicit some sort of favorable response to the product. Through the years, the trademarks of Hershey Foods Corporation have come to mean high quality, good taste, and fine tradition. Though not reflected as an asset on the Company's books, Hershey's trademarks have very significant value.

Because a brand name is so vital, it is important to companies to protect their brand names which are trademarks. Hershey has established rights in trademarks that go back to the turn of the century, identifying such well known products as HERSHEY'S Milk Chocolate Bar, HERSHEY'S Almond Bar, HERSHEY'S Cocoa and HERSHEY'S Baking Chocolate. Rights in trademarks can be lost if they are not used properly or adequately protected, and once lost, can be used on competing products, thereby diluting the effect of the brand name.

Over the years, the consumer has come to know and trust brand names. In recent years, however, brand name products have been confronted with a key challenge by the marketing of generic products. These products, while usually less expensive than brand name products, have no identifying names themselves to clue the consumer to the quality, history or background of the product. The thrust of generic marketing is to convince consumers that generics have everything brand name products do except the well known name. But rarely can consumers be sure that generic products are of equal quality to brand name products.

Along with the challenges there are new opportunities for brand names, such as licensing. Hershey's licensing program involves agreements with firms in foreign countries such as Japan and Great Britain. In Japan, Hershey has an agreement with Fujiya Confectionery Co., Ltd., allowing that firm to market and distribute Hershey products there. Hershey has a trademark license agreement with Rowntree Mackintosh plc, of Great Britain, a leading maker of chocolate and confectionery products, under which Hershey manufactures and distributes in the United States some of Rowntree's products, including KIT KAT and ROLO candy, which have become two of the most popular products in the Hershey line.

In recent years, Hershey's CHOCOLATE WORLD has become more and more involved in licensing as a way to provide maximum positive exposure to the Company's trademarks. Through licensing agreements, CHOCOLATE WORLD has entered into contracts with numerous companies to manufacture non-food items with the Company's trademarks on them. The list of items, some of which are sold at CHOCOLATE WORLD, includes jewelry, children's sleepwear, beach towels, stationery, games and toys, with corporate trademarks prominently displayed on them.

A trademark license which benefited Hershey enormously last year was in connection with the movie "E.T., The Extra-Terrestrial," which included REESE'S PIECES candy in its story line. The arrangement, celebrated on the cover of this Annual Report, allowed Hershey to incorporate E.T. and other characters from the movie into REESE'S PIECES candy promotional items which were provided free to consumers who sent in proofs of purchase. The tie-in significantly increased the sale of REESE'S PIECES candy and provided valuable exposure to one of Hershey's newest products.

Hershey is likely to expand its licensing activities in the years ahead but will continue to carefully protect its trademarks, which are among its most valued assets.

STOCK MARKET DATA

Hershey Foods Corporation had 16,033 stockholders at year-end 1982, with a total of 15,668,556 common shares outstanding. There is no other class of stock outstanding.

The common stock is listed and traded principally on the New York Stock Exchange under the symbol HSY. Approximately 3,610,000 shares of the Company's common stock were traded during 1982. The closing price of the common stock on the New York Stock Exchange on December 31, 1982 was $56.375.

The Company's common stock price range and dividends per share by quarter for the last two years appear on page 22.

AUTOMATIC DIVIDEND REINVESTMENT SERVICE

Stockholders may take advantage of an automatic dividend reinvestment service offered through Manufacturers Hanover Trust Company. Quarterly common stock dividends are automatically reinvested in Hershey common stock, and optional cash investments may be made for the purchase of additional shares.

Benefits of the service include the ability to increase holdings in Hershey common stock at a very low cost; automatic savings by payment of dividends directly to the Bank; crediting of fractional shares to fully utilize the reinvested funds; dollar cost averaging; provision of personal records maintenance; and facilitation of additional voluntary cash investments of up to $20,000 annually.

A brochure describing this service is available from the Company's Investor Relations Department in Hershey or from the Dividend Reinvestment Department of Manufacturers Hanover Trust Company, P.O. Box 24850, Church Street Station, New York, N.Y. 10242.

CONSOLIDATION OF ACCOUNTS

Stockholders who add to their holdings of Hershey stock are advised to have their broker or bank register the shares in exactly the same name and account as those of present holdings. Whenever there is the slightest variation in the name or address of a stockholder, a separate account must be established. This leads to duplicate mailings and added expense to the Company.

Anyone presently having more than one account registered in his or her name can assist the Company by permitting consolidation. To combine such holdings, stockholders should forward the names and numbers of the accounts involved, along with a signed request, to Manufacturers Hanover Trust Company, Stock Transfer Administration, P.O. Box 24935, Church Street Station, New York, N.Y. 10249.

ANNUAL MEETING OF STOCKHOLDERS

The Annual Meeting will be held at 2 p.m. on Monday, April 25, 1983 at the Hershey Theatre, East Caracas Avenue (near Cocoa Avenue), in Hershey, Pa.

A formal notice of this meeting, together with a proxy statement, is being mailed to stockholders on or about March 10, 1983.

Stockholders who are unable to attend the meeting are urged to mark, sign, date and return their proxy card promptly so the stock of the Corporation will be represented as fully as possible at the meeting.

INVESTOR SERVICES

The Corporation has an Investor Relations function in Hershey. Requests for interim and annual reports, or for more information about the Company, should be directed to the Investor Relations Department, Corporate Administrative Center, Hershey Foods Corporation, 14 E. Chocolate Ave., Hershey, Pa. 17033.

FORM 10-K

The Annual Report to the Securities and Exchange Commission on Form 10-K is available without charge upon written request to the Office of the Secretary, Corporate Administrative Center, Hershey Foods Corporation, 14 E. Chocolate Ave., Hershey, Pa.17033.

The following comments relate to the results of operations for 1982 and 1981. The explanatory information should be read in conjunction with the Six-Year Financial Summary presented on page 36.

The Company experienced sales and earnings growth in 1982 and 1981. Consolidated net sales have increased during the two year period since 1980 at a compounded growth rate of 8.3%, representing both volume and price increases.

Net income has increased at a compounded growth rate of 23.2% during this period, primarily reflecting an increased gross profit margin on higher sales levels and decreased net interest expense. In addition, the effective income tax rates have declined during the period, primarily as a result of investment tax credits associated with the construction of a new manufacturing facility. Gross profit margin improvements have resulted primarily from lower ingredient costs and manufacturing efficiencies. The costs of major commodities have generally been decreasing in total during the period, more than offsetting cost increases. The decrease in net interest expense reflects reduced average short-term borrowings resulting from increased levels of cash generated from operations and the issuance of 1,500,000 shares of common stock for approximately $53 million in late 1981. Also, capitalized interest increased as a result of the construction of a new manufacturing facility.

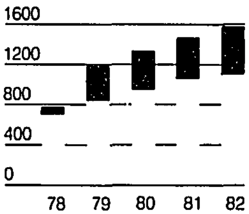
1982

Consolidated net sales in 1982 increased $114.6 million, an increase of 8% over 1981 consolidated net sales of $1,451.1 million. This increase in consolidated net sales is attributable to increased selling prices, increased unit volume, and the inclusion of the six months of net sales of Petybon Industrias Alimenticias Ltda. since its acquisition. In the Chocolate and Confectionery segment, the majority of the increase is attributable to increased unit selling prices associated with the increase in the weight of the Hershey Chocolate Company's standard bar product line. Increased selling prices and sales volume contributed about equally to the increase in the Restaurant Operations segment. The primary reason for the net sales increase in the Other Food Products and Services segment was the inclusion of Petybon. Reduced selling prices experienced by the coffee services and the domestic pasta operations were substantially offset by increased sales volume for the pasta operations.

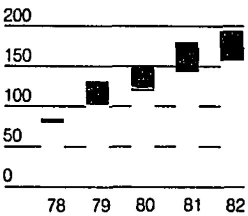
Net income increased $13.8 million, or 17% over 1981. Gross profit margins increased from 30.0% in 1981 to 30.7% in 1982, reflecting declining commodity costs combined with manufacturing efficiencies. Gross profit margin increases were achieved in all segments. The 13% increase in selling, general and administrative expenses primarily reflects higher selling and marketing expenses in response to the highly competitive markets in which the Company operates. Net interest expense decreased 37% in 1982 compared with 1981, reflecting reduced levels of short-term borrowings at lower interest rates, increased capitalized interest and interest income. In addition, the effective income tax rate decreased from 48.1% in 1981 to 45.1% in 1982, resulting primarily from additional investment tax credits on a new manufacturing facility completed in October 1982.

Net income per common share amounted to $6.01 compared with $5.61 in 1981, an increase of 7%. The average number of outstanding common shares was 15,668,556 in 1982 and 14,321,716 in 1981, reflecting the November 1981 stock offering in which 1,500,000 shares of the Company's common stock were sold to the public.

NET SALES BY INDUSTRY SEGMENT
(dollars in millions)



OPERATING INCOME BY INDUSTRY SEGMENT
(dollars in millions)



Chocolate and Confectionery
Restaurant Operations
Other Food Products & Services

1981

Consolidated net sales in 1981 increased $115.9 million, an increase of 9% over 1980 consolidated net sales of $1,335.3 million. This increase in consolidated net sales was attributable primarily to increased selling prices. Increased unit volume and increased selling prices were experienced in the Chocolate and Confectionery segment; however, increased selling prices accounted for the increase in the Restaurant Operations and Other Food Products and Services segments.

Net income increased $18.3 million, or 30% over 1980. Gross profit margins increased from 27.2% in 1980 to 30.0% in 1981, contributing significantly to the net income increase. Improved gross profit margins reflected relatively stable commodity costs combined with manufacturing efficiencies. Gross profit margin increases were achieved in all industry segments. The 19% increase in selling, general and administrative expenses primarily reflected higher selling and marketing expenses in response to the highly competitive markets in which the Company operates. Net interest expense decreased 11% in 1981 compared with 1980, reflecting reduced levels of short-term borrowings and increased capitalized interest and interest income. In addition, the effective income tax rate decreased from 50.3% in 1980 to 48.1% in 1981, resulting primarily from investment tax credits on the construction of a new manufacturing facility.

Net income per common share amounted to $5.61 compared with $4.38 in 1980, an increase of 28%. The average number of outstanding common shares increased from 14,159,801 in 1980 to 14,321,716 in 1981, reflecting the November 1981 sale of 1,500,000 shares of common stock.

The Company operates in three industry segments: Chocolate and Confectionery, Restaurant Operations and Other Food Products and Services. The schedule on page 20 presents net sales, operating income, identifiable assets and other information for the three industry segments. Operations in the Chocolate and Confectionery segment involve manufacture and sale of a broad line of chocolate and confectionery products. The principal product groups sold are bar goods, bagged items, baking ingredients, chocolate drink mixes and dessert toppings. The Restaurant Operations segment is engaged in the operation of restaurants (641 at December 31, 1982) and the manufacture of certain items sold in those restaurants. The Other Food Products and Services segment is involved in the manufacture and sale of pasta products in the U.S. and Brazil and biscuit and margarine products in Brazil and the operation of a coffee service plan for U.S. and Canadian businesses and institutions.

No customer, government or other entity accounts for 10% or more of sales. Intersegment sales are not separately stated because such sales are not significant. Foreign sales and assets account for less than 10% of total sales and assets.

Identifiable assets are those assets that are used in the Company's operations in each segment. Corporate assets are principally cash, short-term investments, and corporate property and equipment.

The Chocolate and Confectionery segment was the major contributor to consolidated net sales growth during 1982 and 1981. In 1982, the segment had an increase of $66.5 million, or 7% over 1981 segment sales. This followed an increase of $85.2 million, or 9% in 1981 compared with 1980. The 1982 increase was attributable to both increased unit volume and selling prices, with increased selling prices accounting for the majority of the increase. The increased selling prices include, since April 1982, a 20% price increase, together with weight increases, on Hershey Chocolate Company's standard bar product line. For example: HERSHEY'S Milk Chocolate Bars and HERSHEY'S Almond Bars were increased in weight by 38%, while the wholesale price was increased only 20%. The total weight increase on the standard bar product line averaged 28%. As a result, these items which sold in most retail outlets for 25¢ now sell for 30¢. Increased unit volume contributed to more than half of the 1981 increase.

Operating income in 1982 increased $12.1 million, or 9% compared with 1981. Slightly improved operating margins were primarily the result of lower commodity costs, particularly sugar and cocoa beans. These lower costs, together with manufacturing efficiencies, more than offset higher costs of labor, packaging material and the negative impact of the price and weight change resulting in a lower price per ounce of the standard bar product line. Selling and marketing expenses increased primarily as a result of increased advertising and trade promotions.

In 1981, operating income increased $24.2 million, or 20% compared with 1980. Manufacturing efficiencies, lower unit weights of standard bars for a portion of the period and selected price increases contributed to an improvement in operating income margins. Lower cocoa bean and almond costs offset higher costs of other commodities, particularly sugar and peanuts. Selling and marketing expenses increased because of expanded advertising and promotion programs.

Net sales for the Restaurant Operations segment increased $32.9 million, or 11% in 1982 compared with 1981. In 1981, net sales increased $28.6 million, or 10% compared with 1980. The sales growth in 1982 is attributable about equally to increased volume and selling prices, with new restaurant openings, greater volume in existing restaurants (due in part to favorable weather conditions) and sales of new products, all contributing to real sales growth. In 1981, menu price increases, restaurant modifications and new restaurant openings also contributed to the increase, although real sales declined slightly.

In 1982, operating income increased $5.0 million, or 17% compared with 1981. The increase in operating margins reflects the increased sales volume, together with productivity improvements and lower costs of major commodities. These were offset partially by increased other food and restaurant supply costs, labor, restaurant operating costs and selling and marketing expenses. The increase in selling and marketing reflects higher television advertising and increased coupon promotions during 1982.

Operating income in 1981 increased $3.7 million, or 15% compared with 1980. Increases in selected menu prices, favorable commodity costs and productivity improvements were the primary reasons for the increase in operating margins.

For the years ended December 31	1982	1981	1980
(in thousands of dollars)			
Net sales:			
Chocolate and Confectionery	$1,081,558	$1,015,106	$ 929,885
Restaurant Operations	335,836	302,908	274,297
Other Food Products and Services	148,342	133,137	131,107
Total net sales	$1,565,736	$1,451,151	$1,335,289
Operating income:			
Chocolate and Confectionery	$ 154,805	$ 142,658	$ 118,435
Restaurant Operations	34,279	29,309	25,567
Other Food Products and Services	4,947	7,250	5,148
Total operating income	194,031	179,217	149,150
General corporate expenses	(14,629)	(11,763)	(10,190)
Interest expense—net	(7,859)	(12,512)	(14,100)
Income before taxes	171,543	154,942	124,860
Less: income taxes	77,375	74,580	62,805
Net income	$ 94,168	$ 80,362	$ 62,055
Identifiable assets:			
Chocolate and Confectionery	$ 528,194	$ 445,815	$ 333,232
Restaurant Operations	234,860	223,265	219,196
Other Food Products and Services	83,345	63,446	62,553
Corporate	41,672	74,274	69,491
Total identifiable assets	$ 888,071	$ 806,800	$ 684,472
Depreciation:			
Chocolate and Confectionery	$ 10,225	$ 9,554	$ 8,469
Restaurant Operations	15,574	14,379	13,015
Other Food Products and Services	3,670	2,675	2,671
Corporate	1,212	957	741
Total depreciation	$ 30,681	$ 27,565	$ 24,896
Capital additions:			
Chocolate and Confectionery	$ 77,074	$ 57,504	$ 27,061
Restaurant Operations	28,005	22,098	24,468
Other Food Products and Services	7,022	5,525	6,141
Corporate	4,635	6,546	1,359
Total capital additions	$ 116,736	$ 91,673	$ 59,029

Net sales for the Other Food Products and Services segment in 1982 increased $15.2 million, or 11% compared with 1981. In 1981, net sales increased $2.0 million, or 2% compared with 1980. In 1982, the Company purchased the remaining interest in Petybon, which was previously a 40% owned joint venture in Brazil. Petybon's results of operations, which had previously been reported under the equity method, have been consolidated for six months and accounted for all of the sales increase for the segment. Although sales volume increased for the pasta division, this sales gain was substantially offset by decreases in selling prices as lower commodity costs were passed on to the consumer. The coffee services operations experienced slight decreases in selling prices and unit volumes reflecting the overall weak economic conditions. The 1981 increase is attributable to higher prices within the pasta business. Prices for the coffee services business were reduced to reflect lower coffee costs in 1981.

Operating income in 1982 decreased $2.3 million, or 32% compared with 1981, primarily due to reduced sales volume and lower selling prices which resulted in lower operating margins within the coffee services division. Also contributing to the decline was the inclusion of the additional 60% of Petybon operations and the foreign exchange losses associated with the relative weakening of the Brazilian cruzeiro versus the U.S. dollar during 1982. Operating income margins within the pasta division increased over 1981 reflecting reduced commodity prices and manufacturing efficiencies. This increase was partially offset by increased advertising and a higher level of promotions in 1982.

Operating income in 1981 increased $2.1 million, or 41% compared with the prior year. 1980 included a writeoff of $1.4 million of deferred location costs of Cory Food Services, Inc. The operating income margin increase in 1981 is attributable to lower coffee costs in the coffee services division and higher selling prices for the pasta division.

Generally, the Company has been able to finance its annual working capital requirements through funds generated from normal business operations. However, at certain times during the year the Company has seasonal working capital needs which exceed funds generated from normal operations and, therefore, require interim financing. These needs are met by issuing commercial paper and/or borrowing from commercial banks. Typically, the Company's seasonal needs for working capital peak during the summer months and the short-term borrowings are generally repaid in the fall.

Working capital was $133.4 million at December 31, 1982, compared with $169.8 million at December 31, 1981. The decrease is reflected in lower cash and short-term investments and the inclusion of the $15 million promissory notes due 1983 as a current liability, offset somewhat by higher inventories and accounts receivable. In 1982, the Company borrowed on a short-term basis to fund seasonal working capital requirements, but to a lesser extent than 1981 and 1980. In November 1981, the Company received $53 million from the issuance of 1,500,000 shares of common stock in a public offering.

The ratio of current assets to current liabilities was 1.9:1 at December 31, 1982; 2.4:1 in 1981 and 2.0:1 in 1980. The ratio for 1981 included the proceeds from the November 1981 stock offering. The Company's trade accounts receivable and inventories generally have increased in proportion to sales growth. Inventories increased by $26.7 million in 1982 and $38.2 million in 1981, representing additional requirements necessary for anticipated sales growth and commodity procurement activities.

At December 31, 1982, the Company's unused sources of funds consisted principally of $18 million of cash and short-term investments and $100 million currently available under its bank lines of credit which may be borrowed directly or used to support the issuance of commercial paper.

Although the Company has generally met its capital expenditure requirements from internally generated funds, from time to time, it has supplemented these sources by using various long-term financing arrangements. In December 1982, $1.0 million of 10.4% Industrial Revenue Bonds due 2002 and $2.1 million of 10.625% Pollution Control Revenue Bonds due 2012 were issued to finance certain pollution control and operating equipment for the new manufacturing facility in Stuarts Draft, Virginia. In 1981, 1,500,000 common shares were issued in a public offering at $37 per share to meet capital expenditure and working capital requirements. In 1980, the Company issued $15 million of 10¾% Promissory Notes due 1983 through a private placement to refinance, on an interim basis, the construction of a technical center and to purchase and renovate an administrative office building in Hershey, Pennsylvania. The Company expects to refinance this obligation during 1983.

At December 31, 1982, the Company's principal capital commitment was for a $16 million chocolate and confectionery distribution center near Hershey, Pennsylvania. Construction of the 434,500 square foot structure began in November 1982, and the facility is expected to be operational by early 1984. Other major components of the Company's capital program include the installation of manufacturing equipment for existing and new products and the construction of Friendly restaurants.

The Company's ratio of long-term debt to stockholders' equity was 26% in 1982, 34% in 1981 and 44% in 1980. The decrease in 1982 resulted from the reclassification of the $15 million promissory notes due in 1983 to current portion of long-term debt combined with the increase in retained earnings. The decrease in 1981 reflected the inclusion of the proceeds from the late 1981 issuance of 1,500,000 shares of common stock.

The significant and persistent worldwide inflation in recent years has impacted the historical dollar financial statements of many companies. Methods have been adopted by the Financial Accounting Standards Board to measure the impact of increasing costs and the changes in the purchasing power of the dollar. The impact of inflation on the Company is presented on pages 33 through 35. While these methods are experimental in nature, in general they provide a reasonable indication of inflation's impact.

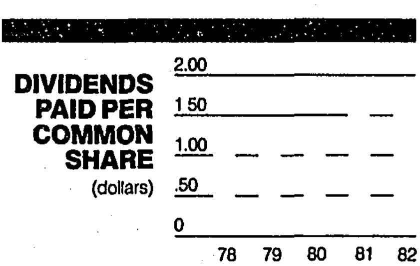
Cash dividends paid on the Company's common stock were $31.3 million in 1982 and $25.5 million in 1981. The annual dividend rate was increased 10.5% in 1982 to $2.10 per share from $1.90 per share in 1981. This represents the eighth consecutive year of dividend increases for the stockholders. On February 15, 1983, the Company declared a regular quarterly dividend of $.525 per share of common stock payable on March 15 to stockholders of record February 25. It is the Company's 213th consecutive regular dividend.

Hershey Foods Corporation common stock is listed and traded principally on the New York Stock Exchange under the symbol HSY. Approximately 3,610,000 shares of the Company's common stock were traded during 1982. The closing price of the common stock on the New York Stock Exchange on December 31, 1982, was $56.375. The number of stockholders of record at December 31, 1982, was 16,033.

The following table shows the dividends paid per common share and the price range of the common stock for each quarter of the past two years.

	Dividends Paid Per Common Share	Common Stock Price Range* High	Low
COMMON STOCK			
1982 First Quarter	$ .475	$38⅜	$32⅜
Second Quarter	.475	43⅛	37⅝
Third Quarter	.525	49	39⅜
Fourth Quarter	.525	59½	47¼
	$2.00		
1981 First Quarter	$ .40	$33¾	$23⅛
Second Quarter	.40	41	32½
Third Quarter	.475	37⅝	32
Fourth Quarter	.475	39	34
	$1.75		

*NYSE-Composite Quotations



Capital additions, including capitalized interest and capitalized leases, in 1982 were $116.7 million compared with $91.7 million in 1981 and $59.0 million in 1980. Capital additions, including those at Friendly since January 1979, amounted to $361.3 million during the past five years.

Chocolate and Confectionery segment additions accounted for $77.1 million or 66% of the 1982 total spending compared with $57.5 million or 63% in 1981. As in 1981, the major addition during the year was construction of the new manufacturing facility in Stuarts Draft, Virginia. As of December 31, 1982, expenditures on this project amounted to $81.4 million, plus capitalized interest of $7.5 million. A total of $44.6 million, including capitalized interest, was incurred in 1982. Additions at other facilities included modifications to the milk receiving facility and installation of other production equipment.

The Restaurant Operations segment accounted for $28.0 million or 24% of the 1982 total spending compared with $22.1 million or 24% in 1981. Approximately 65% of the restaurant spending was for 24 new restaurants, with the remaining portion for modification of existing restaurants and other improvements.

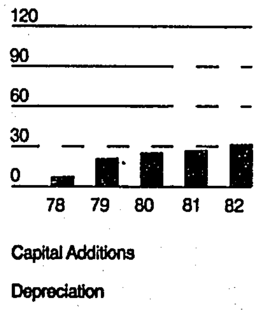
The Other Food Products and Services segment accounted for $7.0 million or 6% of the 1982 total spending compared with $5.5 million or 6% in 1981. Additions during 1982 included the purchase of coffee brewers and the installation of pasta manufacturing lines.

Corporate additions were $4.6 million or 4% of 1982 total spending compared with $6.5 million or 7% of the 1981 total spending. These amounts are represented primarily by the renovation of an administrative office building in Hershey which was completed and occupied by corporate staff employees in April 1982.

Depreciation expense and amortization of leasehold improvements and capitalized leases for 1982 through 1980 amounted to $30.7 million, $27.6 million and $24.9 million, respectively.

CAPITAL ADDITIONS AND DEPRECIATION

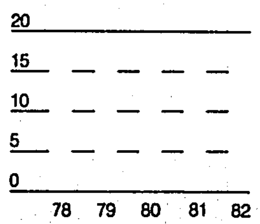
(dollars in millions)



The Company has increased consolidated net sales, net income and assets over the most recent five-year period and has maintained its return on average stockholders' equity in the range of 15.2% to 19.3% and was 18.8% in 1982. The 1982 return incorporates a full year's effect of the $53 million of additional stockholders' equity resulting from the issuance of 1,500,000 shares of common stock late in 1981.

RETURN ON AVERAGE STOCKHOLDERS' EQUITY

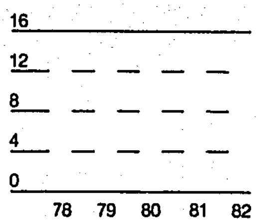
(percent)



The Company's after-tax return on average invested capital over the most recent five-year period has been maintained in the range of 12.8% to 14.3% and was 14.3% in 1982. Average invested capital consists of the average of beginning and end-of-year balances in long-term debt, deferred income taxes and stockholders' equity. Earnings on invested capital is the sum of net income and the after-tax effect of interest on long-term debt.

AFTER-TAX RETURN ON AVERAGE INVESTED CAPITAL

(percent)



(in thousands of dollars except per share amounts)

For the years ended December 31	1982	1981	1980
Net Sales	$1,565,736	$1,451,151	$1,335,289
Costs and Expenses:			
Cost of sales	1,084,748	1,015,767	971,714
Selling, general and administrative	301,586	267,930	224,615
Total costs and expenses	1,386,334	1,283,697	1,196,329
Income from Operations	179,402	167,454	138,960
Interest expense, net (Note 1)	7,859	12,512	14,100
Income before Taxes	171,543	154,942	124,860
Provision for income taxes (Note 2)	77,375	74,580	62,805
Net Income	94,168	80,362	62,055
Retained Earnings at January 1	399,989	345,131	304,316
Less—Cash Dividends	31,337	25,504	21,240
Retained Earnings at December 31	$ 462,820	$ 399,989	$ 345,131
Net Income per Common Share (Note 1)	$ 6.01	$ 5.61	$ 4.38
Cash Dividends per Common Share	$ 2.00	$ 1.75	$ 1.50

The accompanying notes are an integral part of these statements

(in thousands of dollars)

For the years ended December 31	1982	1981	1980
Cash Provided from (Used by) Operations			
Net income	$ 94,168	$ 80,362	$ 62,055
Depreciation and amortization	32,378	29,168	26,378
Deferred income taxes	12,067	9,195	13,561
Working capital provided from operations	138,613	118,725	101,994
Change in components of operating working capital (except cash):			
Increase in inventories	(26,695)	(38,189)	(7,623)
Increase in receivables	(8,888)	(10,277)	(8,541)
Increase in accounts payable, accrued liabilities and accrued income taxes	6,857	5,104	14,630
Other	11,609	(12,224)	(3,232)
Cash provided from operations	121,496	63,139	97,228
Cash (Used for) Dividends	(31,337)	(25,504)	(21,240)
Cash Provided from (Used for) Investment Activities			
Capital additions	(116,736)	(91,673)	(59,029)
Investment in Petybon Industrias Alimenticias Ltda., net of working capital acquired of $2,583 (Note 1)	(10,417)	—	—
Disposals of property, plant and equipment	3,991	3,440	4,393
Other	(2,572)	2,662	2,665
Cash (Used for) Investment Activities	(125,734)	(85,571)	(51,971)
Cash Provided from (Used for) Financing Activities			
Issuance of common stock	—	52,953	—
Issuance of long-term debt	3,100	—	15,000
Reduction in long-term debt	(21,032)	(535)	(7,500)
Increase in current portion of long-term debt	17,448	491	204
Cash Provided from (Used for) Financing Activities	(484)	52,909	7,704
Increase (Decrease) in Cash and Short-Term Investments	(36,059)	4,973	31,721
Cash and Short-Term Investments at January 1	53,879	48,906	17,185
Cash and Short-Term Investments at December 31	$ 17,820	$ 53,879	$ 48,906

The accompanying notes are an integral part of these statements

(in thousands of dollars)

December 31	1982	1981
Current Assets:		
Cash and short-term investments	$ 17,820	$ 53,879
Accounts receivable—trade (less allowances for doubtful accounts of $3,040 and $2,792)	65,129	56,241
Inventories (Note 1)	178,585	151,890
Other current assets	13,411	25,020
Total current assets	274,945	287,030
Property, Plant and Equipment, at cost: (Notes 1 and 4)		
Land	51,050	46,592
Buildings	183,387	174,705
Machinery and equipment	474,918	358,446
Capitalized leases	19,920	18,238
	729,275	597,981
Less—accumulated depreciation and amortization	189,361	157.797
	539,914	440,184
Excess of Cost Over Net Assets of Businesses Acquired (Note 1)	52,609	53,911
Investments and Other Assets	20,603	25,675
	$888,071	$806,800

December 31	1982	1981
Current Liabilities:		
Accounts payable	$ 45,288	$ 48,085
Accrued liabilities		
Payroll and other compensation costs	29,208	23,916
Advertising and promotional expenses	12,805	14,415
Other	23,281	18,702
	65,294	57,033
Accrued income taxes	11,399	10,006
Current portion of long-term debt (Note 4)	19,579	2,131
Total current liabilities	141,560	117,255
Long-Term Debt (Notes 4 and 5)	140,250	158,182
Deferred Income Taxes (Note 2)	73,766	61,699
Stockholders' Equity: (Note 1)		
Common stock without par value (stated value $1 per share)—authorized 20,000,000 shares; outstanding 15,668,556 shares	15,669	15,669
Additional paid-in capital	54,006	54,006
Retained earnings	462,820	399,989
Total stockholders' equity	532,495	469,664
	$888,071	$806,800

The accompanying notes are an integral part of these balance sheets.

The following are the significant accounting policies employed by the Company. Accounting policies relating to income taxes and retirement plans are described in Notes 2 and 6, respectively.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries after elimination of intercompany accounts and transactions. The accounts and transactions of the Company's foreign subsidiaries and affiliates are translated in accordance with Financial Accounting Standards Board Statement No. 8. The Company intends to adopt Financial Accounting Standards Board Statement No. 52, "Foreign Currency Translation," effective January 1, 1983. Had this statement been adopted for 1982, the effect on the financial statements would not have been material.

INVENTORIES

Substantially all of the Chocolate and Confectionery segment inventories are valued under the "last-in, first-out" (LIFO) method. Such LIFO inventories amounted to $109,725,000 in 1982 and $97,320,000 in 1981. The remaining inventories are principally stated at the lower of "first-in, first-out" (FIFO) cost or market. The components of year-end inventories are presented below.

December 31 (in thousands of dollars)	1982	1981
Raw materials	$112,068	$103,245
Goods in process	28,912	25,268
Finished goods	113,067	105,357
Inventories at FIFO	254,047	233,870
Less: adjustment to LIFO method	75,462	81,980
Total inventories	$178,585	$151,890

PROPERTY, PLANT AND EQUIPMENT

The Company provides straight-line depreciation for buildings and machinery and equipment. Property, plant and equipment balances include construction in progress in the amount of $22,717,000 at December 31, 1982, and $63,400,000 at December 31, 1981. Certain leases are capitalized at the present value of future minimum lease payments and are amortized using the straight-line method over the related lease terms.

EXCESS OF COST OVER NET ASSETS OF BUSINESSES ACQUIRED

Substantially all of the excess of the acquisition cost over the fair value of the net assets of businesses acquired is being amortized on a straight-line basis over a period of forty years.

ACQUISITION

During 1982, the Company purchased, for $13,000,000, the remaining interest in a 40% owned venture in Brazil, Petybon Industrias Alimenticias Ltda. Accordingly, Petybon's results of operations, which had previously been reported under the equity method, have been consolidated for the six month period subsequent to the acquisition. Had the results of Petybon been included with consolidated results for the entire year of 1982, the effect would not have been material. Petybon manufactures and sells pasta, biscuit and margarine products.

DEVELOPMENT AND PROMOTION EXPENSES

The costs of research and development ($5,885,000 in 1982, $5,352,000 in 1981 and $4,504,000 in 1980) and advertising and promotion ($137,310,000 in 1982, $123,244,000 in 1981 and $100,088,000 in 1980) are expensed in the year incurred.

NET INCOME PER COMMON SHARE

Net income per common share has been computed based on the weighted average number of shares of common stock outstanding during the year (15,668,556 in 1982, 14,321,716 in 1981 and 14,159,801 in 1980).

INTEREST EXPENSE

Interest expense-net consists of the following:

(in thousands of dollars)	1982	1981	1980
Long-term debt	$13,212	$13,163	$12,637
Capitalized leases	1,715	1,644	1,413
Short-term obligations	2,548	3,700	3,105
Capitalized interest	(6,034)	(3,216)	(958)
	11,441	15,291	16,197
Interest income	(3,582)	(2,779)	(2,097)
	$ 7,859	$12,512	$14,100

COMMON STOCK

The Milton Hershey School and School Trust owned 50.1% of the Company's common stock at December 31, 1982.

The provision for Federal and state income taxes is based on income as reported in the financial statements. Deferred income taxes are provided for the tax effect of timing differences resulting primarily from the use of accelerated depreciation for income tax purposes. The provision for income taxes has been reduced by allowable investment and other tax credits.

The provision for income taxes exceeds taxes currently payable by $12,067,000 in 1982, $9,195,000 in 1981 and $13,561,000 in 1980. The following table reconciles the provision for income taxes with the amount computed by applying the Federal statutory rate.

	1982		1981		1980	
(in thousands of dollars)	Amount	%	Amount	%	Amount	%
Taxes computed at statutory rate	$78,910	46.0	$71,273	46.0	$57,436	46.0
Increase (reductions) resulting from:						
State income taxes, net of Federal income tax benefits	7,789	4.5	6,801	4.4	5,522	4.4
Investment and other tax credits	(10,354)	(6.0)	(5,959)	(3.8)	(3,428)	(2.7)
Nondeductible expenses relating to acquisitions	2,403	1.4	2,554	1.6	2,567	2.1
Other, net	(1,373)	(.8)	(89)	(.1)	708	.5
Provision for income taxes	$77,375	45.1	$74,580	48.1	$62,805	50.3

Because of seasonal working capital requirements, the Company maintained lines of credit arrangements with commercial banks, under which it could borrow up to $100 million in 1982 and 1981 at the lending banks' prime commercial interest rate or lower. These lines of credit, which may be used to support commercial paper borrowings, may be terminated at the option of the banks or the Company. There were no borrowings under these lines of credit at December 31, 1982 or 1981.

The average daily outstanding short-term debt under both lines of credit and commercial paper during 1982 and 1981 was $16,526,000 and $19,683,000, respectively, with a weighted average daily interest rate of 14.0% and 17.4%, respectively. The maximum amount of short-term borrowings by the Company at any month-end was $55,445,000 in 1982 and $59,501,000 in 1981.

These lines of credit are supported by commitment fee and/or compensating balance arrangements. The fees range up to 1/2% per annum of the commitment. While there are no compensating balance agreements which legally restrict these funds, the Company generally maintains compensating balances of up to 5% of borrowings under these lines of credit and generally not less than 2.5% of commitments.

Long-term debt and capitalized lease obligations at December 31, 1982 and 1981 consisted of the following:

(in thousands of dollars)	1982	1981
10.75% Promissory Notes due 1983	$15,000	$ 15,000
8.7% Senior Notes due 1992	20,000	20,000
7.25% Sinking Fund Debentures due 1997	22,500	24,000
Less Debentures repurchased	(4,550)	(1,095)
6.875% Industrial Revenue Bonds due 2000–2005	4,000	4,000
10.4% Industrial Revenue Bonds due 2002	1,000	—
10.625% Pollution Control Revenue Bonds due 2012	2,100	—
9.5% Sinking Fund Debentures due 2009	75,000	75,000
Other obligations	6,007	5,333
Capitalized lease obligations	18,772	18,075
	159,829	160,313
Less: Current portion of long-term debt and capitalized lease obligations	19,579	2,131
Total long-term debt	$140,250	$158,182

Capitalized leases relate primarily to certain restaurant facilities leased by the Restaurant Operations segment.

In December 1982, the Industrial Development Authority of Augusta County, Virginia, issued $1,000,000 of 10.4% Industrial Revenue Bonds due 2002 and $2,100,000 of 10.625% Pollution Control Revenue Bonds due 2012 to provide financing for certain pollution control and operating equipment for the manufacturing facility in Stuarts Draft, Virginia. The Company is solely responsible for payment of principal and interest.

During 1982, the Company purchased $4,955,000 of its 7.25% Sinking Fund Debentures, intending to use these repurchased debentures to meet annual Sinking Fund payments of $1,500,000. Annual payments of $2,000,000 begin in 1983 on the 8.7% Senior Notes. Annual Sinking Fund payments of $3,000,000 begin in 1985 for the 9.5% Debentures.

The aggregate annual payments of long-term debt, net of repurchased debentures of $1,500,000 for 1983 through 1985 and $50,000 for 1986, and exclusive of capitalized lease obligations are as follows: 1983, $18,466,000; 1984, $2,962,000; 1985, $5,348,000; 1986, $6,721,000; 1987, $6,793,000.

Total rent expense for all operating leases, which pertain principally to certain restaurants, warehouses and transportation equipment, was $15,033,000 in 1982, $12,051,000 in 1981 and $10,340,000 in 1980.

Future minimum lease payments under noncancelable leases with an original term in excess of one year as of December 31, 1982 are as follows:

(in thousands of dollars)	Capital Leases	Operating Leases
1983	$ 2,987	$ 5,719
1984	2,994	4,942
1985	2,920	3,833
1986	2,893	3,030
1987	2,790	2,479
1988 and beyond	20,416	12,507
Total minimum lease payments	$35,000	$32,510

The total minimum lease payments under capital leases include $16,228,000 of imputed interest.

The Company and its subsidiaries have several non-contributory retirement plans covering substantially all salaried and full-time hourly employees. Costs are computed and funded on the basis of accepted actuarial methods and include current service costs and the amortization of past service costs of all plans.

The total pension expense was $12,927,000 in 1982, $13,200,000 in 1981 and $10,440,000 in 1980, which includes amortization of past service costs over principally 15 years in 1982 and 1981 and 30 years in 1980.

Changes during 1981 in the principal amortization period of past service costs to 15 years from 30 and changes in interest, salary rate and other assumptions used in computing pension costs contributed to the increase in pension expense for 1981. Increases in retiree pension benefits also contributed to the increase in 1981 pension expense. A comparison of accumulated plan benefits and plan net assets for the Company's defined benefit plans as of the date of the most recent actuarial valuation is as follows:

January 1	1982	1981
(in thousands of dollars)		
Actuarial present value of accumulated plan benefits:		
Vested	$110,868	$108,314
Non-vested	8,181	8,442
	$119,049	$116,756
Market value of net assets available for benefits	$103,708	$ 93,893

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was principally 8%.

The following table presents net sales, gross profit, net income and net income per common share for each quarter of the past two years.

(in thousands of dollars except per share amounts)

Year 1982	First	Second	Third	Fourth	Year
Net sales	$390,447	$314,364	$443,018	$417,907	$1,565,736
Gross profit	124,861	97,006	135,525	123,596	480,988
Net income	$ 26,685	$ 16,036	$ 27,820	$ 23,627	$ 94,168
Net income per common share	$ 1.70	$ 1.03	$ 1.77	$ 1.51	$ 6.01

Year 1981	First	Second	Third	Fourth	Year
Net sales	$383,241	$296,439	$386,786	$384,685	$1,451,151
Gross profit	106,513	87,080	118,466	123,325	435,384
Net income	$ 21,133	$ 14,376	$ 23,889	$ 20,964	$ 80,362
Net income per common share	$ 1.49	$ 1.02	$ 1.68	$ 1.42	$ 5.61

Industry segment information and unaudited information regarding the effects of inflation are shown on pages 19 through 21 and 33 through 35, respectively, of this report.

Hershey Foods Corporation is responsible for the financial statements and other financial information contained in this report. The Company believes that the financial statements have been prepared in conformity with generally accepted accounting principles appropriate under the circumstances to reflect in all material respects the substance of applicable events and transactions. In preparing the financial statements, it is necessary that management make informed estimates and judgments. The other financial information in this annual report is consistent with the financial statements.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance that financial records are reliable for purposes of preparing financial statements and that assets are properly accounted for and safeguarded. The concept of reasonable assurance is based on the recognition that the cost of the system must be related to the benefits to be derived. The Company believes its system provides an appropriate balance in this regard. The Company maintains an Internal Auditing Department which reviews the adequacy and tests the application of internal accounting controls.

The financial statements have been examined by Arthur Andersen & Co., independent public accountants, whose appointment was ratified by stockholder vote at the stockholders' meeting held on April 26, 1982. Thejr report expresses an opinion that the Company's financial statements are fairly stated in conformity with generally accepted accounting principles. Their examination was performed in accordance with generally accepted auditing standards and, accordingly, included reviewing the internal accounting controls and conducting other auditing procedures they deemed necessary.

The Audit Committee of the Board of Directors of the Company, consisting solely of outside directors, meets regularly with the independent public accountants, internal auditors, and management to discuss, among other things, the audit scopes and results. Arthur Andersen & Co. and the internal auditors both have full and free access to the Audit Committee, with and without the presence of management.

To the Stockholders and Board of Directors
of Hershey Foods Corporation:

We have examined the consolidated balance sheets of Hershey Foods Corporation (a Delaware Corporation) and subsidiaries as of December 31, 1982, and 1981, and the related consolidated statements of income and retained earnings and changes in financial position for each of the three years in the period ended December 31, 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Hershey Foods Corporation and subsidiaries as of December 31, 1982, and 1981, and the results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

New York, N.Y.
February 11, 1983

The Company's consolidated financial statements are prepared based upon the historical prices in effect when the transactions occurred. The following supplementary information reflects certain effects of inflation upon the Company's operations in accordance with the requirements of Statement of Financial Accounting Standards No. 33, "Financial Reporting and Changing Prices", issued by the Financial Accounting Standards Board.

The effects of inflation on income have been measured in two ways as described below and presented in the following statements. The first method, "constant dollar", measures the effect of general inflation determined by using the 1982 average Consumer Price Index for all Urban Consumers (CPI-U) to recompute results of operations. The second method, "current cost", is more specific to the Company in that it measures inflation by recomputing results of operations using the current cost of inventory and property, plant and equipment rather than the historical cost of such assets. Current costs of property, plant and equipment were developed from external price indices, quotations or similar measurements.

The inflation-adjusted information presented may not necessarily be comparable with other companies within the same industry because of differences in assumptions and judgments. However, of the two methods required, the Company believes the current cost method is more meaningful because it better measures the effects of inflation on Company operations.

Depreciation expense increased under both methods because of inflation. Current cost depreciation exceeds constant dollar depreciation because the cumulative increases in the Company's specific cost of property, plant and equipment have exceeded the general inflation rate. Both methods represent costs of property, plant and equipment currently used in operations. However, the Company generally takes advantage of the latest technological improvements when actual replacement occurs.

The adjustment to current cost of sales is not significant because substantial portions of inventories in the historical financial statements are stated at LIFO cost. Under LIFO cost, current costs are included in cost of sales in the historical financial statements. During 1982, the costs of non-LIFO components of cost of sales increased only slightly, resulting in a minor increase in current cost over historical cost of sales.

The statement shows that the historical effective income tax rate for 1982 of 45.1% increases under both methods since Federal Income Tax Regulations do not provide for a tax deduction for these inflation adjustments.

The gain from decline of purchasing power of net amounts owed set forth in the following schedule presents the Company's gain from holding more monetary liabilities (requiring fixed future cash settlements) than monetary assets (right to receive fixed amounts of future cash) during periods of inflation, thereby requiring less purchasing power to satisfy such future obligations. However, since this gain will not be realized until the obligations are repaid, it is excluded from inflation-adjusted net income.

Five-Year Comparison

The five-year comparison on page 35 shows the effect of adjusting historical net sales, net income, dividends per common share, market price per common share, net assets and other information, to dollar amounts expressed in terms of average 1982 dollars, as measured by the average Consumer Price Index. After adjustment for inflation, net sales have increased 38% from 1978 through 1982.

Management recognizes the impact of inflation and has taken various steps to minimize its impact on the Company's businesses. The use of LIFO inventory accounting for the major portion of its inventories reduces reported earnings, thereby reducing taxes and improving cash flow, in periods of inflation by matching current costs with current revenues. The capital expenditure program, through investment in modern plant and equipment, not only improves productivity and manufacturing efficiencies, but also provides for future sales growth. Programs designed to identify cost reductions and productivity improvements which would result in improved margins are a continuing part of the Company's approach to inflation management. In 1982, the Company achieved approximately an 11% increase in current cost net income compared with a 17% increase in historical dollar net income.

The Company also recognizes that the purchasing power of the dollar significantly affects its stockholders and has attempted to maintain or improve the inflation-adjusted dividend. In 1982, the Company provided real growth of 7.5% in dividends paid per common share. Dividends paid in 1982 are approximately 41% of earnings per share when stated in both constant dollar and current cost amounts compared with a 33% historical dollar basis.

The increase in specific prices compared with general inflation increases has changed annually since costs for agricultural commodities often do not follow the trend of general inflation. Comparisons of other amounts for years prior to 1979 were neither readily available nor required by Statement No. 33. Historical cost data presented for 1979 includes results of Friendly Ice Cream Corporation subsequent to its acquisition in January 1979.

(in thousands of dollars)

For the year ended December 31, 1982	As Reported in the Primary Statement (historical dollars)	Adjusted for General Inflation (constant dollar)	Adjusted for Changes in Specific Prices (current cost)
Net sales	$1,565,736	$1,565,736	$1,565,736
Cost of sales (excluding depreciation)	1,057,761	1,061,054	1,059,505
Selling, general and administrative expenses (excluding depreciation)	297,892	297,892	297,892
Depreciation expense	30,681	44,385	46,569
Interest expense—net	7,859	7,859	7,859
Income before taxes	171,543	154,546	153,911
Income taxes	77,375	77,375	77,375
Net income	$ 94,168	$ 77,171	$ 76,536
Effective tax rate	45.1%	50.1%	50.3%
Gain from decline of purchasing power of net amounts owed		$ 10,595	$ 10,595
Decrease in specific prices (current cost) of inventories and property, plant and equipment held during the year (see Note)			$ (24,924)
Effect of increase in general price level of inventories and property, plant and equipment			37,087
Excess of increase in general price level over decrease in specific prices			$ 62,011

Note: At December 31, 1982, current cost of inventory was $240.7 million and current cost of property, plant and equipment, net of accumulated depreciation was $778.6 million.

(in thousands of average 1982 dollars except per share amounts)

For the years ended December 31	1982	1981	1980	1979	1978
Net sales					
As reported	$1,565,736	1,451,151	1,335,289	1,161,295	767,880
In constant dollars	$1,565,736	1,540,117	1,564,149	1,544,298	1,136,101
Net Income'					
As reported	$ 94,168	80,362	62,055	53,504	41,456
In constant dollars	$ 77,171	64,982	53,302	52,357	
At current cost	$ 76,536	69,148	50,564	56,837	
Net Income per share					
As reported	$ 6.01	5.61	4.38	3.78	3.02
In constant dollars	$ 4.93	4.54	3.76	3.70	
At current cost	$ 4.88	4.83	3.57	4.02	
Dividends per common share					
As reported	$ 2.00	1.75	1.50	1.35	1.225
In constant dollars	$ 2.00	1.86	1.76	1.80	1.81
Market price per common share at year-end					
As reported	$ 56.38	36.00	23.50	24.63	20.63
In constant dollars	$ 55.74	36.97	26.29	30.97	29.39
Net assets at year-end					
As reported	$ 532,495	469,664	361,550	320,730	284,389
In constant dollars	$ 797,098	752,957	631,159	590,342	
At current cost	$ 836,224	854,152	845,134	804,996	
Gain from decline in purchasing power of net amounts owed	$ 10,595	22,872	31,974	35,360	
Excess of increase in general price level over decrease in specific prices	$ 62,011	90,376	(210)	(28,712)	
Average Consumer Price Index (1967 = 100)	289.1	272.4	246.8	217.4	195.4

(All dollar and share amounts in thousands except market price and per share statistics)

	1982	1981	1980	1979	1978	1977
Summary of Earnings						
Continuing Operations						
Net Sales	$1,565,736	1,451,151	1,335,289	1,161,295	767,880	671,227
Cost of Sales	$1,084,748	1,015,767	971,714	855,252	560,137	489,802
Operating Expenses	$ 301,586	267,930	224,615	184,186	128,520	110,554
Interest Expense	$ 11,441	15,291	16,197	19,424	2,620	2,422
Interest (Income)	$ (3,582)	(2,779)	(2,097)	(1,660)	(5,303)	(2,931)
Income Taxes	$ 77,375	74,580	62,805	50,589	40,450	35,349
Income from Continuing Operations	$ 94,168	80,362	62,055	53,504	41,456	36,031
Gain Related to Disposal of Discontinued Operations	$ —	—	—	—	—	5,300
Net Income	$ 94,168	80,362	62,055	53,504	41,456	41,331
Income Per Common Share						
Continuing Operations	$ 6.01	5.61	4.38	3.78	3.02	2.62
Gain Related to Disposal of Discontinued Operations	$ —	—	—	—	—	.39
Net Income	$ 6.01	5.61	4.38	3.78	3.02	3.01
Dividends Paid Per Common Share	$ 2.00	1.75	1.50	1.35	1.225	1.14
Average Number of Common Shares and Equivalents Outstanding During the Year	15,669	14,322	14,160	14,153	13,742	13,722
Percent of Income from Continuing Operations to Sales	6.0%	5.5%	4.6%	4.6%	5.4%	5.4%
Financial Statistics						
Capital Additions	$ 116,736	91,673	59,029	56,437	37,425	27,535
Depreciation	$ 30,681	27,565	24,896	20,515	8,850	7,995
Advertising	$ 64,046	56,516	42,684	32,063	21,847	17,637
Current Assets	$ 274,945	287,030	221,367	170,250	216,659	221,202
Current Liabilities	$ 141,560	117,255	111,660	103,826	74,415	83,149
Working Capital	$ 133,385	169,775	109,707	66,424	142,244	138,053
Current Ratio	1.9:1	2.4:1	2.0:1	1.6:1	2.9:1	2.7:1
Long-Term Debt	$ 140,250	158,182	158,758	143,700	35,540	29,440
Debt-to-Equity Percent	26%	34%	44%	45%	13%	11%
Stockholders' Equity	$ 532,495	469,664	361,550	320,730	284,389	259,668
Total Assets	$ 888,071	806,800	684,472	607,199	422,004	396,153
Return on Average Stockholders' Equity	18.8%	19.3%	18.2%	17.7%	15.2%	16.8%
After-Tax Return on Average Invested Capital	14.3%	13.9%	12.8%	14.3%	13.0%	14.2%
Stockholders' Data						
Outstanding Common Shares at Year-End	15,669	15,669	14,160	14,159	13,745	13,730
Market Price of Common Stock						
At Year-End	$ 56⅜	36	23½	24⅝	20⅝	19⅞
Range During Year	$59½–32⅜	41–23⅛	26–20	26½–17⅜	23½–18½	22⅜–16⅝
Number of Common Stockholders At Year-End	16,033	16,817	17,774	18,417	18,735	19,694
Employees' Data						
Payrolls	$ 305,651	273,097	253,297	227,987	112,135	99,322
Number of Full-Time Employees–Year-End	13,600	12,450	12,430	11,700	8,100	7,660

Note Includes the operations of Friendly Ice Cream Corporation subsequent to its acquisition in January, 1979

BOARD OF DIRECTORS

Harold S. Mohler
Chairman of the Board

William E. C. Dearden
Vice Chairman of the Board and Chief Executive Officer

Richard T. Baker
Consultant and Former Managing Partner, Ernst & Whinney, certified public accountants

John C. Jamison
Limited Partner, Goldman, Sachs & Co., investment bankers, New York, N.Y.

Robert J. Lanigan
President and Chief Operating Officer, Owens-Illinois, Inc., Toledo, Ohio

Francine I. Neff
Vice President and Director, NETS, Inc., investment company, Albuquerque, N.M.

H. Robert Sharbaugh
Consultant and Former Chairman and Chief Executive Officer, Sun Company, Inc., Villanova, Pa.

Philip A. Singleton
President, Singleton Associates International, industrial consultants, Amherst, Mass.

Louis C. Smith
Vice President

Earl J. Spangler
President, Hershey Chocolate Company

John C. Suerth
Director and Member, Executive Committee, Gerber Products Company, manufacturer of food and infant care products, Fremont, Mich.

Richard A. Zimmerman
President and Chief Operating Officer

AUDIT COMMITTEE

Richard T. Baker, *Chairman*
John C. Jamison
Francine I. Neff

COMPENSATION AND EXECUTIVE ORGANIZATION COMMITTEE

John C. Suerth, *Chairman*
John C. Jamison
Robert J. Lanigan
Philip A. Singleton

EMPLOYEE BENEFIT COMMITTEE

Philip A. Singleton, *Chairman*
Richard T. Baker
H. Robert Sharbaugh
John C. Suerth

EXECUTIVE COMMITTEE

Harold S. Mohler, *Chairman*
William E. C. Dearden
Richard A. Zimmerman

NOMINATING COMMITTEE

Francine I. Neff, *Chairperson*
William E. C. Dearden
Harold S. Mohler

CORPORATE OFFICERS

Harold S. Mohler
Chairman of the Board

William E. C. Dearden
Vice Chairman of the Board and Chief Executive Officer

Richard A. Zimmerman
President and Chief Operating Officer

Dr. Ogden C. Johnson
Executive Vice President

Charles E. Duroni
Vice President and General Counsel

William P. Noyes
Vice President, Human Resources

Louis C. Smith
Vice President

Charles A. Smylie
Vice President, Administration

William F. Suhring
Vice President, Corporate Development

Kenneth L. Wolfe
Vice President, Finance and Chief Financial Officer

Dr. Barry L. Zoumas
Vice President, Science and Technology

William Lehr, Jr.
Secretary and Treasurer

Howard W. Rush, Jr.
Controller and Chief Accounting Officer

Hershey Foods Corporation
Hershey, Pennsylvania 17033 U.S.A.